ECONOMIC IMPACT OF AGRICULTURAL EMBARGOES

HEARINGS

BEFORE THE

SUBCOMMITTEE ON
FOREIGN AGRICULTURAL POLICY

OF THE

COMMITTEE ON AGRICULTURE,
NUTRITION, AND FORESTRY
UNITED STATES SENATE

NINETY-SEVENTH CONGRESS

SECOND SESSION

ON

THE EVALUATION OF THE ECONOMIC IMPACT OF PREVIOUS AGRICULTURAL EMBARGOES ON BOTH THE UNITED STATES AND THE EMBARGOED COUNTRIES

FEBRUARY 3 AND 5, 1982

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ECONOMIC IMPACT OF AGRICULTURAL EMBARGOES

WEDNESDAY, FEBRUARY 3, 1982

U.S. SENATE,
SUBCOMMITTEE ON FOREIGN AGRICULTURAL POLICY,
COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY,
Washington, D.C.

The subcommittee met, pursuant to notice, at 9:42 a.m., in room 324, Russell Senate Office Building, Hon. Rudy Boschwitz (chairman of the subcommittee), presiding.

Present: Senators Boschwitz, Lugar, Dole, Jepsen, Dixon, Pryor, and Zorinsky.

STATEMENT OF HON. RUDY BOSCHWITZ, A U.S. SENATOR FROM MINNESOTA

Senator BOSCHWITZ. This is the first of two hearings that we will have on the impact of so-called grain embargoes. This morning, we are going to have a variety of witnesses; we are going to hold the first of two hearings on agricultural embargoes.

Agricultural embargoes have been employed frequently by the United States in the past decade. The Soviet grain embargo in 1980 is the most recent example. However, the U.S. embargoed grain sales three times during the 1970's; twice against the Soviets and once against Poland. In addition, we placed a sweeping embargo against soybeans and cottonseed in 1973 which dealt a blow to the Japanese, who at the time were receiving about 90 percent of their soybeans from the United States.

I ask that an article from the September 6, 1980 National Journal, entitled "A Decade of Grain Embargoes," be made part of the record. This article provides an excellent summary of the last five American agricultural embargoes.[1]

Today, with the help of a number of expert witnesses, this subcommittee will attempt to explore some important questions about these and other agricultural sanctions.

Have such embargoes been effective? What have been the costs to the country imposing the embargo as well as to the country upon which it is imposed? What are the short- and long-term changes? What about the pattern of world production and also world trade as a result of these embargoes?

Our first witness, Dr. Michael Cook, formerly with Texas A. & M. and now with FAR-MAR division of Farmland Industries, is the principal compiler of this very excellent book on U.S. farm exports. He is going to give us a historical perspective that will take us back a couple of hundred years with respect to trade embargoes and whether or not they work.

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[1] See p. 111 for a reprint of the above-referred-to article.

Then we will move on to a panel discussion of the more recent trade sanctions. Dr. Robert Paarlberg, political scientist at Wellesley College in Massachusetts, will look at them from a political angle, and Dr. Ed Schuh of the University of Minnesota will give us his evaluation as an agricultural economist.

The key reason for this subcommittee holding these hearings on agricultural trade disruptions is that all sanctions have an impact on farmers and, of course, that is the jurisdiction of our committee.

We are pleased to have a producer panel composed of representatives of the American Soybean Association, the National Corn Growers, and the National Association of Wheat Growers, and they will illustrate how the sanctions have affected their members.

One fact is sometimes lost on national policymakers, and that is that actions taken in the best interests of the country as a whole can often have disproportionately large and harmful consequences for certain regions. We will also discuss whether or not these actions were indeed in the best interests of our country as a whole.

The Minnesota Agri-Growth Council, represented by its president, Russ Schwandt, will detail the effects of the 1980–81 embargo on the upper Middle West. Today's discussion would not be complete without a discussion of how the sanctions affected the grain trading industry. The National Grain and Feed Association has chosen the chairman of its International Trade Committee, John Finlayson, to present its testimony.

We will continue on Friday, when we will hear from Secretary of Agriculture John Block. We look forward to USDA's evaluation of the economic effect of past embargoes and the impact on this country and the countries embargoed.

We may also hear this morning something about the Russian agricultural economy. We are going to ask our witnesses what impact there is on world cropping patterns and what impact it could have, and whether or not some of the grains that this country now exports can be grown elsewhere and exported by other countries so that we would have a longer term loss of markets, which would not only be disruptive to the agricultural sector but probably to our economy as a whole.

Senator Zorinsky, do you have any opening remarks?

STATEMENT OF HON. EDWARD ZORINSKY, A U.S. SENATOR FROM NEBRASKA

Senator Zorinsky. Yes, Mr. Chairman, I do.

Mr. Chairman, I want to extend my personal thanks to you for conducting hearings on this issue of critical importance to the agricultural community.

Last week, President Reagan announced that a general trade embargo against the Soviet Union would be in place for its continuing actions in Poland, and this is one of the options presently under consideration. This news was particularly alarming to the farm community, since the 1981 farm bill provides direct payments and increased loan rates to farmers only in cases where selective embargoes are applied.

The testimony you will receive today from academic and agricultural producing experts will verify the disastrous impact the recent grain embargo against the Soviet Union had on U.S. farmers. I would like to take this opportunity to review my own position on this latest grain embargo and to reiterate my opposition to agricultural embargoes in general.

Unlike other industrial embargoes, the farmer cannot go out into the field and fine-tune and decrease every third row of production, or lay off one-third of the force or go to a 4-day-a-week production schedule instead of a 5-day-a-week production schedule.

Exports are the lifeblood of American agriculture. More than one in every three bushels of wheat and one in every three bushels of corn are exported. Trade in agricultural goods is not intended to benefit recipient nations as much as it is to benefit the American people, particularly the American farmer.

Any embargo endangers the health and vitality of the agricultural economy. It wreaks havoc on the stability of the marketplace. The uncertain availability of markets makes it difficult, if not impossible, for suppliers to make planning and marketing decisions—decisions such as crop size and determination, seed and fertilizer purchases, and credit obtainment.

This confusion among the suppliers is understandable. Why should farmers produce if there is not any market for them? Buyers, in turn, lose faith in the Nation applying the embargo as a reliable supplier. The credibility of the supplier nation, in other words, is tarnished, as ours has been in several times past.

In the 1970's, several embargoes were applied where farmers were never consulted—the soybean embargo in 1973, the Soviet embargo in 1974 and the Soviet and Polish embargo in 1975. In all of these instances, an unfair burden was placed on U.S. farmers; they became the sole bearers of national security and foreign policy aspirations.

In the case of the recent grain embargo against the Soviet Union, the purpose of the policy was to send a clear message to the Soviet Union that the United States disapproved of the Soviet invasion of Afghanistan. Instead, the message was clear to American farmers; their Government did not give a damn about them.

Officials in the Carter and Reagan administrations had hoped that the cutoff in grain supplies would drastically reduce the amount of grain available to the Soviet Union. However, such a theory is workable only if the supplier effectively controls the market, which we did not.

Not only did other major grain exporters, such as Argentina, Australia, Canada, and Western Europe, greatly expand their exports; smaller producers such as Thailand increased their grain shipments to the Soviet Union. Western Europe even shipped wheat flour and soybean meal made from U.S. crops to the Soviet Union.

Farmers all over the world benefited—everywhere except in the United States. In the 1980 marketing year, the Soviets were able to obtain 31 of the 35 million metric tons of grain they had expected. Things were made even easier as larger grain shipments to the

Eastern bloc lightened the Soviet responsibility to feed its satellites.

Both administrations also insisted that reduced grain supplies would reduce meat production and consumption in the Soviet Union. A USDA study released in the summer of 1981 revealed that Soviet meat production had declined only six-tenths of 1 percent.

Moreover, Soviet citizens were hardly starving. Consumption had been reduced 1 to 2 percent—less than 1 ounce per week. Simply stated, the grain embargo denied the Soviet citizenry the equivalent of one Big Mac per week.

A GAO report, released in March 1981, confirmed that the 1979-80 grain embargo had little, if any, impact. The Soviet Union had not suffered a deprivation of grain, nor had it reversed its policy in Afghanistan. The United States, on the other hand, had ousted one of the agricultural market's primary cash customers. Likewise, embargo stocks of wheat and corn had to be channeled into the grain reserve program, further depressing market prices.

On March 24, 1981, I attempted to end this senseless persecution of American farmers through an amendment to the dairy legislation. My amendment was a simple, straightforward measure designed to end confusion in the agricultural community and to require direct action by the President.

In effect, my amendment would have repealed the embargo on April 30, 1981, unless the President certified to the Congress that U.S. foreign policy necessitated its continuation and that the embargo would not have an undue adverse impact on the agricultural community. What passed was a meaningless resolution expressing the sense of the Senate that the embargo on grain sales to the Soviet Union be terminated.

I was gratified to learn on April 24, that the President had lifted the embargo. Unfortunately, it appears that the administration still pursues linkage of foreign policy and agricultural exports. For example, last March $5 million in Food for Peace aid was suspended to Mozambique after the Government expelled four U.S. diplomats and two wives of diplomats.

Also, the Agency for International Development refused action on the $9.6 million request by Nicaragua in Food for Peace loans in response to its alleged support of revolutionaries in El Salvador.

Let us hope that these hearings will send a signal to the administration that Congress will no longer acquiesce in policies which result in the demise of specific economic sectors.

Thank you, Mr. Chairman.

Senator **Boschwitz**. Senator Dixon, do you wish to make an opening statement?

STATEMENT OF HON. ALAN J. DIXON, A U.S. SENATOR FROM ILLINOIS

Senator **Dixon**. Mr. Chairman, American Presidents, both Democratic and Republican, have imposed three embargoes of agricultural commodities in recent years.

Two of the embargoes were designed to insure adequate supplies of grain in the U.S. market at reasonable prices. The third was designed to punish the Soviets for their invasion of Afghanistan.

There has been considerable controversy over the question of whether any or all of these embargoes succeeded in the short term. Over the long term, however, I think that the answer is much more clear. The embargoes were and are generally poor public policy for a number of reasons.

First, embargoes feed the general impression that the United States is impulsive and an unreliable supplier of goods and services. The result has been that, increasingly, nations come to the United States for the purchase of food and other goods and services only as a last resort.

It is particularly important that the United States can be seen as a reliable food supplier because of the increasing inability of many of the world's states to grow their own food. Total world grain exports, for example, have risen to over 14 percent of total world grain consumption, up from less than 10 percent 20 years ago.

Even in the face of rapidly rising worldwide demand for food, however, the United States cannot complacently assume the continuation of its predominant position in world agricultural markets. The United States is the world's largest food exporter, regularly supplying more than half the world's grain exports. But U.S. soybean growers, to cite just one example, face growing foreign competition. Expansion of Brazilian soybean production has enabled Brazil to capture a large share of the world market for soybeans and soybean meal.

Embargoes, or even the possibility of embargoes, make it more difficult for our farmers to meet increased foreign competition. Embargoes act to increase the volatility of the marketplace, making it difficult for farmers to plan intelligently. They can result in a period of depressed prices for agricultural commodities, undermining farm income. American farmers are extremely efficient producers, but they operate on a thin margin of profit. A drop in prices due to an embargo can act to make their entire year's work unprofitable.

Embargoes can also have adverse impact on the U.S. balance of payments. They can act to weaken the dollar, already under assault. In short, the economic costs include inflation, economic stagnation and unemployment, the full extent depending, in part, upon the uncertain duration of the embargo.

Mr. Chairman, I am not suggesting that an embargo is never sound public policy. However, I do not believe that farmers should be singled out to bear a disproportionate share of the burden made necessary by difficult foreign policy decisions. Agricultural exports are too important to the U.S. economy for a decision on embargoes to be made without prior congressional approval.

Last session, as you know, I offered an amendment, along with my colleague, Senator Percy, to the Export Administration Act of 1981. This amendment prohibited restrictions on the export of agricultural products to any country for foreign policy reasons, unless the embargo was in conjunction with an across-the-board ban on all trade with the country, or unless Congress adopted a joint resolution approving the restrictions. That amendment was adopted by the Senate by a vote of 66 to 20, but was not adopted in the conference report.

This committee adopted an embargo provision, as you know, in the 1981 farm bill requiring compensation to farmers affected by a selective agricultural embargo for national security or foreign policy reasons. The Secretary would be required to either, one, establish a loan level at 100 percent of parity or, two, make payments to producers or, three, provide a combination of increased loan levels and payments.

Mr. Chairman and members of the committee, we must continue our efforts to make sure that we reduce the temptation to use food as a foreign policy weapon. Food should be the last item a President turns to, instead of the first, when contemplating export controls.

Thank you very much.

Senator BOSCHWITZ. Senator Pryor, do you have any——

STATEMENT OF HON. DAVID H. PRYOR, A U.S. SENATOR FROM ARKANSAS

Senator PRYOR. Mr. Chairman, I have a statement I would like unanimous consent to insert in the record. I will just make two or three points from my statement, Mr. Chairman.[1]

First, in response to something our good friend and colleague from Nebraska, Senator Zorinsky said when he talked about a "sense of the Senate" resolution, and this does not necessarily relate just to embargoes, I would hope he will join me in my "sense of the Senate" resolution which has been introduced some time last summer.

"We hereby declare that it be the sense of the Senate that no more 'sense of the Senate' resolutions shall be introduced," because I think that is about the weight that many of the "sense of the Senate" resolutions are given and looked at by our colleagues, and certainly by the public.

One or two points quickly, Mr. Chairman. I returned from my State like all of us have since the recess, and I do not know if my colleagues talked to as many farmers as I did. I talked to a large number of farmers, small and large, efficient and inefficient, and I have never seen the depth of frustration in the agricultural community that I have sensed after those particular visits.

My point is this: If we are going to talk about an embargo and if the President is going to talk about an embargo—if we are going to say, "here is a card we may play"—if we hold that out constantly as a threat or as a card that we may put on the table, I say let us go ahead and have an embargo, because it has the same effect.

The mere discussion of the possibility of an embargo, I think, does the same thing to commodity markets than an embargo itself, if imposed, creates.

The second point: I think, too, that many of the farmers that I have had the opportunity to visit with and listen to sense today, Mr. Chairman, that the State Department, vis-a-vis the Agriculture Department, is truly setting the real agriculture policy for America, and that the involvement by the State Department is today so intense and is of such great magnitude in setting the overall policy that there is a great fear that when we go to USDA and when we talk to the Secretary of Agriculture, somehow or another the State Department has the final say-so in many of his ultimate decisions.

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[1] See p. 96 for the prepared statement of Senator Pryor.

Third, the agriculture community today is so depressed and frustrated at this point because they have been taught and brought up with a philosophy, and that is to plant, to grow, to produce and to be efficient.

That is exactly what the farmer has done today. But, as a result, the farmer today finds himself caught in a web, in a situation in which he has absolutely no control. And, today, the farmer finds himself the victim of his own efficiency. That is exactly, today, where the farmer finds himself.

And lastly, Mr. Chairman, I think that the farmer today feels more than ever before that he needs an advocate, not just a Department to manage programs and make sure that the loan rates are adjusted properly, and not just to make sure that they are complying with whatever the Office of Management and Budget is dictating.

But in USDA today, I think the farmers feel a deep hope, really, that this Department of Agriculture and this particular Secretary of Agriculture will become not necessarily just a manager but an advocate.

And I think on the subject of embargoes about which you have called these hearings, Mr. Chairman, and I commend you, the farmer today, I hope, will sense that the Congress is caring about the issue, thus caring about the farmer, and that we are trying once again to move our policy into an advocacy position for the farmer and not just a manager of programs.

That basically is my view, Mr. Chairman. I look forward to hearing the witnesses.

Senator BOSCHWITZ. I hope you are right, Senator, that the Department will become such an advocate.

We are pleased to welcome Senator Lugar. Just prior to your arrival, Senator Lugar, Senator Pryor was concerned that the State Department was setting a good deal of the agricultural policy, which brings to mind our meeting yesterday with Secretary Haig, because there are about half a dozen members of this committee who are also on the Foreign Affairs Committee.

To a man and woman, Senator Kassebaum, Senator Pressler, and Senator Percy, who are not on this committee, also spoke to the Secretary about the uselessness and the deep effect that embargoes have on the rural communities of America.

Senator Lugar, do you want to make an opening statement?

STATEMENT OF HON. RICHARD G. LUGAR, A U.S. SENATOR FROM INDIANA

Senator LUGAR. Mr. Chairman, I would reiterate today what I said yesterday and what you said yesterday, directed to the Secretary of State. It was simply that there is almost a debating aspect to this thought that the embargo, if it came, would be across the board. Of course, it would be, but 75 to 80 percent of the component of that embargo across the board would be agricultural, so that when we are talking about even an embargo across the board, we are talking about an agricultural embargo, essentially.

Furthermore, the Secretary's reiteration that we would not have a unilateral embargo but that it would have to be something in tune with our allies, of course, makes the situation impossible. We do not have that degree of cooperation. We get into semantics as to who our allies might be. We are not certain whether that extends to Argentina, for example, or to other nations that are clearly beyond NATO.

The point that I tried to make, and others, was that the talk of the embargo has had the devastating effect of the embargo itself. The depression of prices comes from the ambivalence that this kind of rhetoric allows. Clearly, we should have come to a conclusion by this time that economic sanctions, even if they show our serious purpose, will not make a substantial difference with regard to the termination to the Soviet Union.

Alternatively, it does appear that in the credit markets and in the whole business of financing the Eastern bloc, there is substantial leverage and there is already total allied involvement. We already have a part of that debt.

Finally, as we are discussing that aspect, the State Department needs to look very carefully at the use or misuse of the CCC program. Clearly, something has been going on here that is totally abnormal with regard to anything that has occurred in the past, and the debts that have been incurred happened, perhaps, with the cognizance of members of this committee and Foreign Relations, and perhaps not.

In any event, what needs to be there now is a set of conditions before we extend any further credit, whether it be agricultural or otherwise. I do not see those conditions in place and that degree of planning on the part of either the State Department or the Department of Agriculture presently. I think all of us would be more comforted if we did.

What if, for example, martial law were to be lifted suddenly, the prisoners were to be freed and negotiations were to begin, and a request came for $500 million of money or food, or both? Under what conditions do we send it? The pressures would be great to do something, and to do it rapidly, before we have sorted out the logistics of that, or really how we make any effective difference.

It seems to me we are vulnerable presently; it is a lack of planning. So, Mr. Chairman, I appreciate this opportunity for the benefit of this record to repeat those statements that were made directly to the Secretary in public, but I think they are still important and I suspect my colleagues would concur with that point.

Senator BOSCHWITZ. We will ask some of our witnesses what they feel the impact of the announcement alone is. Senator Pryor spoke of it prior to your getting here. If the amendment has the impact of an embargo, perhaps some of our commodity groups should test in the courts whether or not that is, in fact, an embargo. Such a test will certainly be to the benefit of farmers and will constrain the Government not to make statements rather than impose embargoes which, perhaps, have the same effect.

Thank you very much, Senator Lugar.

Our first witness this morning is Dr. Michael Cook. Dr. Cook was formerly with Texas A. & M. and is now with Farmland Industries. He was the editor of the U.S. Farm Export Education Project of the Agricultural Council of America, which was the best overview, certainly, of exports that I have read and it has been very helpful to me as we develop the thinking on exports in agriculture.

Dr. Cook, it is a pleasure to welcome you and, if you will, go right ahead with your testimony.

STATEMENT OF DR. MICHAEL L. COOK, EXECUTIVE DIRECTOR, MARKET RESEARCH AND DEVELOPMENT, FAR-MAR-CO

Dr. Cook. Thank you, Mr. Chairman.

One of the important debates being carried on throughout the United States at this time concerns the overall direction of our foreign economic policy and, more specifically, the future course of our international trade policy.

Senator Boschwitz. Do you have copies of that?

Senator Pryor. Do we have the statement, Mr. Chairman?

Dr. Cook. Unfortunately, it is hot off the press.

Senator Boschwitz. Should we make some copies of it?

Dr. Cook. You may after I read it.

Senator Boschwitz. OK, fine.

Dr. Cook. More specifically, the future course of our international trade policy is being debated. At the risk of oversimplifying, it can be observed that despite differences in vocabulary and nuance, this debate is pursuing the classic pattern of free trade versus protectionism. The outcome of this debate is extremely important to the economic well-being of the U.S. agriculture sector. The general purpose of this opening statement is to briefly explore the U.S. agricultural producer and agribusinessman and why they are in such a vigilant mood.

During the past 20 years, agricultural trade policy has become increasingly important. There are several reasons for this. First, the United States, the world's most important nation in international commerce, emerged during the 1960's as a net exporter of food, feed, and fiber.

Second, the world has slowly moved toward a tighter food supply/demand balance. Third, since the 1970's, fluctuations in world commodity prices have markedly increased trade risk. Fourth, an increasing number of countries have, by design and/or by necessity, relied on world markets as a buffer instead of cutting back on consumption or depending on their own reserves, thus shifting a large part of the adjustment process onto a small number of exporters, particularly the market-oriented United States.

Fifth, foreign economic policy, which includes agricultural trade policy, has become a major element in foreign policymaking, and therefore exposes the formulation and implementation of agricultural trade policy increasingly to the whims of noneconomic forces. This just backs up what Senator Lugar just finished saying.

It is the policymaker's reaction to these whims of noneconomic forces that has created a major issue out of the process of developing incentives and constraints to expansion of U.S. agricultural exports. Trade barriers, in particular, have been erected which distort the free flow of agricultural goods in many food and fiber sectors.

The majority of my testimony this morning will relate to the historical background of export controls and embargoes. Historically, as I reviewed the literature, these trade barriers, I found, generally have appeared in one of two forms: Import controls or export controls.

Import controls include tariffs, nontariff constraints, and domestic subsidization. Export controls include all trade policy measures adopted to affect the flow of exports directly, including quantitative limitations, which include total embargoes and partial embargoes, export taxes, and voluntary import limitations negotiated with importing nations.

The specific objective of this statement is to examine in more detail the rationale for implementing and the costs incurred of implementing export controls, particularly the form known as embargoes.

Historically, embargoes have been undertaken for two major reasons. Now, if I were in an academic setting, I would give 15 reasons, but for today, let us just give the 2 major reasons; that is, domestic economic stabilization and growth incentives—the embargoes and the partial embargoes imposed in 1973 and 1974—and for foreign economic and security policy reasons.

Export controls and embargoes have been used as foreign policy tools throughout history. In more recent times, and particularly in the last 10 years, the use of export controls worldwide has become increasingly widespread. I did a quick, brief review of history and found that since 1971, we have found that nations throughout the world have embargoed or placed export controls on oil, bauxite, leather, logs, coffee, copper, textile machinery, wheat, rice, and soybeans.

During this same time period, export goods have become more visible as a foreign economic policy tool in the United States. In 1973, soybeans were embargoed, and in 1974 and 1975, similar actions were taken with respect to grain export sales to the Soviet Union.

In 1976, the bilateral grain agreement between the United States and the U.S.S.R. made export demand management by the U.S. Government a regular feature of trade with the Soviet Union. In 1980, the United States suspended exports of numerous agricultural products to the Soviet Union for diplomatic reasons. In April of 1981, this grain embargo was lifted, but by December 1981, a deterioration in relations with the Soviet Union renewed speculation of an impending grain embargo.

Now, the subsequent speakers will go into much greater detail on costs, et cetera, of the 1980 embargo. What I want to give today is just a brief overview of, as I surveyed the history, can embargoes be justified, what has been given historically, and some of the costs related to the imposition of embargoes, particularly food embargoes.

Some of the reasons used in justifying the implementation of embargoes include: Why not use it? It is a legitimate policy tool. From the Embargo Act of 1806—and I know you all had this in history, but it is very interesting. The impact of the Jefferson 1806 Embargo Act, which was lifted in 1809, is a classic example and it fits what we are going through right now.

Since 1806 through the 1981 grain sales suspension, embargoes have been utilized by the U.S. policymakers as an alternative foreign policy choice that was considered wiser than choosing armed conflict and more valiant than submission. So, it has been chosen as a middle-of-the-road type of foreign economic policy tool.

The second justification for embargoes is to inflict punishment on an opponent or try to change the behavior of this opponent. If the opponent is particularly vulnerable to the decrease in supply of an essential product or commodity, the probability of changing the policies or behavior of an opponent are increased.

The third reason or justification given for embargoes: Historical government trade relations. In some cases, the United States has been heavily involved in the formulation and interaction in commercial relations. This is particularly the case with the centrally planned nations. Therefore, it can be justified from the State Department side that, "Look, the Government is more involved, and therefore we feel more justified in using this type of tool."

The fourth reason or justification given for embargoes is that there is a symbolic gain. When a nation imposes an embargo, it demonstrates a resolve to correct or change policies that it finds offensive to its economic, political, or moral being. It can also be interpreted as a sign of leadership that entices other nations to take action against third-party countries.

I think the major point in my testimony this morning is the following statement. Historical and empirical evidence suggests that these four justifications are both weak and irrational, particularly when it concerns food embargoes.

Food embargoes have, first, have seldom, if ever, accomplished their intended goals and, second, seldom, if ever, placed a heavier cost on the embargoed country than on the country imposing the embargo.

Accomplishing the goals of a food embargo are made particularly difficult because, No. 1, food is a fungible commodity; it can be reproduced in a relatively short time. Two, the complexity of the international food trade system; food can reach the importer through complex and uncontrollable sources.

Third, in general the percentage of food traded in the world is small relative to production. I believe between 10 and 11 percent of all food production in the world is traded internationally. I am sure we would all benefit if we cut back eating by 10 percent, or at least I would.

Therefore, it is difficult to have a significant impact on food consumption in any nation by withholding exports by any one export nation. Subsequent speakers will expand and dwell on the reasons why the probability of a successful food embargo is low.

The implementation of export controls on agricultural goods and the use of food as a diplomatic policy instrument has a number of negative impacts on the agricultural sector. As I went through the 200-year review, I identified, I think, 11 or 12 costs of embargoes.

No. 1, as was mentioned by Senator Zorinsky, a food embargo decreases the perception of the export nation as a reliable supplier of agricultural export commodities, and this increases the uncertainty in the importer's decisionmaking process.

We have just returned from Mexico and the Mexicans have stated that they are considering the extension of present negotiated long-range agreements with our competitors that have a cost disadvantage because of this uncertainty. The United States has one of the best markets we could possibly have sitting right on our border and it is fascinating listening to that type of talk.

No. 2, the loss of market share is a second cost that I found. Food embargoes generally lead to short-run loss of market share and can even have a negative long-run impact on market share, depending on the supply response of competitors.

Here is an example: the United States, which is export-dependent in grains and soybeans—that means we export about 60 to 70 percent of the wheat we produce, 55 to 65 percent of the soybeans that we produce, and 25 to 35 percent of the feed grains that we produce.

These three sectors are particularly sensitive to this phenomenon. The United States, in 1979–80, had 66 percent of the market share of exports in coarse grains; in 1980–81, 59 percent; and, it is predicted for 1981–82, 58 percent. Note an 8-percent loss in market share just from the 1980 embargo.

Senator PRYOR. What was that again?

Dr. COOK. 66, 59, and 58.

Now, as an economist, I cannot say all of the reasons for this loss in market share is due to the embargo, but surely it played a major role. Up until 1979, our market share increased every year since 1970.

Senator BOSCHWITZ. Sixty-six was 1979 and fifty-nine was 1980?

Dr. COOK. And 1981–82 is projected at 58 percent.

Senator BOSCHWITZ. Fifty-eight.

Dr. COOK. That is for coarse grains, all right?

Now, I do not want to take the time of the committee, but I went back and reviewed the amount of acres or hectares planted by each of our competitors for 1979, 1980, and 1981. In every case, the response by our competitors was to increase plantings of wheat and coarse grains because of the embargo, or at least that was one of the major reasons. Particularly, some of our best friends have almost doubled production.

Now, it is best to take a look at the acres planted rather than production because of the variability in weather, et cetera.

The third cost that was identified in this historical review was increased production of substitutes. The importing nations that are targets of embargoes tend to develop substitutes for the embargoed commodities. Once a substitute is developed, it is difficult to get that market back. For example, the U.S.S.R. has increased fodder production—that is, hay, straw, silage, and feed roots—by 50 million metric tons since 1975. They have developed a substitute for grains.

The fourth cost that we identified is the control of the U.S. food system. The uncertainty created by the imposition of a food embargo produces feelings of insecurity among food-importing nations even though they might not be the targets of the embargo. We are talking about now the insecurity of the Japanese, the Mexicans and other major importers, even though they were not the targets of the 1980 sales suspension.

This leads these nations to pursue alternative strategies to assure a reliable and consistent source of supply. We have already discussed some of these alternatives; that is, alternative sources of supply, increased self-sufficiency, or the creation of substitute commodities.

Another alternative for these importing nations is to integrate backward—a strategy historically pursued by the United States. As an example, Japanese firms have integrated not only into U.S. export facilities, but also are pursuing a strategy that includes terminal elevator, transportation system, and country grain elevator ownership.

More recently, it was announced in the last 2 weeks that the Koreans have commenced with the same strategy with the purchase of an export facility in Oregon. So, what we see is an integration into the food system by foreign nations, particularly those that are concerned with the unreliability of the United States as a supplier.

The fifth cost: loss of comparative advantage in agriculture. An examination of empirical evidence—this is a Commerce Department study—suggests that agriculture is one of the four economic sectors in which the United States has a comparative advantage and, therefore, should be encouraging expansion of.

Interference by Government intervention through embargoes increases the variability of the volume of agricultural exports, and therefore increases the uncertainty at every level in the production and marketing system. This uncertainty creates inefficiency and a misallocation of resources that, in the long run, might lead the Nation toward a comparative disadvantage in the production of our export commodities.

Along with this point on potential loss from an embargo, I think one could argue against the State Department's rationale that if we force the Soviet to invest more in agriculture, they will spend less on military. I think there is some false reasoning behind that, and that should be explored.

One, the military spending in the Soviet Union is now, historically has been, and probably will be, according to some projections I read, the No. 1 priority, without any doubt, in the Soviet Union.

No. 2, it decreases international economic interdependence. I think in the seventies, one of the gists of détente was that the success of decreasing conflict in the world brought about by GATT, the World Bank, the United Nations, et cetera, was now going to be applied to the Soviet Union.

Third, if the Soviet Union invests—and they will do it inefficiently—into their agricultural system and if they become self-sufficient, that gives us far less leverage, in a sense. Trade makes them interdependent and increasingly dependent. We lose that leverage.

Fourth, the point is that I think if we cut off, they will look for other markets. Second, they might even become belligerent in looking for other markets, such as perhaps some of their policies in Africa could be explained, looking for another food basket.

The sixth, cost: we encourage defensive and export-import controls. I think, for time, I will just run through these last five very quickly.

Seventh, we damage our free trade reputation. Embargoes injure the reputation particularly of the country that has been the greatest free trade advocate since World War II.

Eighth, we encourage replicas. Imposition of embargoes encourage the use or formation of other exporters cartels by implicitly sanctioning the use of such a policy tool. The oil cartel has encouraged food cartels and other sons of oil cartels.

Ninth, increased inflation; world inflation is fueled by export controls, particularly if implemented by major suppliers of inelastically demanded goods such as food.

Tenth, export controls can, in some circumstances, produce results contrary to humanitarian goals. This is particularly true with controls on food sales, which can lead to severe malnutrition and even starvation. Senator Zorinsky also mentioned some of these humanitarian points in his opening remarks.

Eleventh, and I think one that is very important, is the symbolic loss. For every embargo that is implemented, that same embargo must be lifted. The resolve that you have shown when you impose an embargo is by the way lost, when you lift it, you are showing a sign of weakness.

The most beautiful historical example, and I came across about 25, was the Embargo Act of 1809. When we lifted the 1806 embargo, we gained nothing and injured our domestic industry. When President Madison took over, he could not even negotiate with the British anymore. It was an amazing symbolic loss.

In conclusion, two points emerge. One, food embargoes have not been successful at accomplishing their goals. Two, the cost of food embargoes or total embargoes on the U.S. economy, and in particular the agricultural sectors, is very high both in the short and long run.

Agricultural interests would not argue to completely eliminate export controls as a national policy option, but the use of export controls is to be avoided in view of its history of ineffectiveness, and should be employed only in extreme instances of national security as part of a general system of controls on commerce.

Thank you, Mr. Chairman.

Senator **Boschwitz**. Dr. Cook, I noted that Senator Jepsen has come in.

Senator, if you want to make an opening statement or if you want to submit one for the record, we would be very pleased to hear it at this time.

STATEMENT OF HON. ROGER W. JEPSEN, A U.S. SENATOR FROM IOWA

Senator **Jepsen**. Thank you, Mr. Chairman.

First of all, I want to commend you for calling these hearings to review the economic impact of embargoes on agriculture. These hearings are very timely.

There is talk—too much talk—that the administration is considering the possibility of another embargo against the Soviet Union. The waiting and the rumors are having a devastating impact on the farm economy. It is time the administration acts to still these rumors.

If these hearings do nothing else, Mr. Chairman, they should serve to warn the administration to review carefully and clearly the wisdom of using such sanctions as an instrument of foreign policy or as a political tool.

I have stated before, and repeat it now, that grain sanctions do not justify the damage to our agricultural economy. President Reagan, in rescinding President Carter's 1980 grain embargo, voiced his distaste for such measures. Now, that distaste should be no less at this point when the American farmer is facing a disaster—a crisis said to be the worst since the Great Depression of the 1930's.

I should not have to remind this administration that the 1980 Carter-imposed embargo is the root cause of the mess that we are in today.

Today's witnesses, and Secretary Block on Friday, will detail the catastrophic impact of prior embargoes on farmers. But, frankly, Mr. Chairman, enough is already known of the consequences of the last one to raise this question: What is the wisdom of punishing someone if we end up punishing ourselves the most?

The Soviet news agency, TASS, recently observed that American farmers could have sold an additional $1.5 billion worth of grain to the Soviet Union during the past 2 years. It goes without saying that this comment was partly self-serving, but there is enough validity in it to give us pause.

Think about it. How much better—how much less of a need for farm programs if our farmers had an additional $3 billion in their pockets from additional export sales right now? You know, prior to the Carter embargo, two-thirds of the Soviet grain needs were met by the United States. Now it is less than 25 percent.

The grain surplus created by this embargo has had a direct impact on the prices paid to farmers. And, believe me, the prices are low. And because of these surpluses, farm income last year fell to the lowest level in 5 years—to $19 billion.

The termination of farm exports and credit to Poland and the postponement of talks on a new, long-term grain agreement with the Soviets are only adding more uncertainty to the volatile grain markets. The Soviets are not going to buy unless they know we will deliver.

I point out, Mr. Chairman, that earlier this week, the Wall Street Journal ran an article on the impact of falling grain exports on the Farm Belt. It sounded an alarm that the damage could spread.

A significant factor in the export drop, the Journal said, and I quote, "is the rising belief worldwide that the United States is willing to use trade embargoes as a political tool.".

The article went on to say, and I again quote:

> Although President Reagan lifted the Carter embargo, the recent Polish crackdown led him to postpone negotiations with Russia on a new grain sales contract, and he has not ruled out further restrictions if the Polish situation worsens. All this makes some nations reluctant to depend heavily on the United States for food, and it encourages development of farm production in competing grain-exporting nations.

As has already been ably pointed out here by Dr. Cook.

Now, the administration should take heed that since the 1980 embargo alone on Soviet grain trade, Argentina has been turned into a virtual Soviet trade colony. The Soviets more than quadrupled their share of that nation's wheat and corn exports. Those exports should have been ours.

I believe it is time the administration provide our farmers with assurances that it is still dedicated to free and unrestrained access of U.S. farm commodities to world markets, and this means all world markets.

The testimony of today's witnesses should provide a better understanding of the private sector's perspective on this critical issue of embargoes.

I would also add, Mr. Chairman, that approximately 2 weeks ago, I had occasion to sit with the Chairman of the Commodity Futures Trading Commission at an agriculture meeting. In a discussion of just this very subject with him, he again reminded me of the devastating impact that even the mention of the word "embargo" in any news release or news conference—the devastating effect that that has on the markets.

The traders and the long-term contracts—which really kind of set prices for grain—immediately sell what they have on hand upon hearing the word "embargo." They absolutely stop buying and the prices of grain are just depressed further.

I must say that the President has indicated that there will not be a selective embargo. I was pleased to hear Secretary Haig indicate yesterday that there would not be a selective grain embargo. We have made some progress, but still we have much more to be done.

Senator **Boschwitz**. We nailed him down in the farm bill, Senator.

Senator **Jepsen**. Well, that helped. Mr. Chairman, I commend you for keeping the heat on. You are getting to be a watchdog of the embargo problems here, and I want you to know I support you and will help you in every way that I can.

Senator **Boschwitz**. Thank you, Senator.

Senator Dole?

Senator **Dole**. I have a statement which I would like to be made a part of the record.[1]

Senator **Boschwitz**. Without objection.

STATEMENT OF HON. BOB DOLE, A U.S. SENATOR FROM KANSAS

Senator **Dole**. Along with that statement, I would like to include a letter addressed to George Will of Newsweek magazine written by Martin Sorkin,[1] who is an outstanding farm economist and, in fact, served in the Eisenhower administration as an economic adviser to the Secretary of Agriculture.

I do that because it goes through the process of how we continue to lose markets There is always a knee-jerk reaction among conservatives that the first thing we ought to do is cut off food. George Will had not thought of anything new, so he wanted to go back to grain embargoes. [Laughter.]

I was pleased to have been invited to a dinner with Helmut Schmidt when he visited this country, and his recommendation as he left America was to impose a grain embargo, which would not affect his country, while they proceeded to build the pipeline. [Laughter.]

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[1] See p. 93 for the prepared statement of Senator Dole and p. 94 for the letter of Mr. Sorkin.

We have had all the help we need from people do not understand the problem. I assume everybody in this room has a selfish interest. We represent farmers. Obviously, if there is going to be a confrontation in Poland, we are not going to demand that we do not sell grain to the Soviet Union. I think our farmers, as much as they have an interest in this, would criticize that very loudly.

So, I suggest that we understand how delicate the situation is, and it has not changed. We do not want to do anything to put strength in the Soviets' hand in Poland. I would just quote one statement by one of the leaders in Australia from Mr. Sorkin's letter on how Argentina and others have increased their acreage.

Sir Leslie Price, Chairman of the Australian Wheat Board, made the following statement on August 25, 1981:

> While it is generally difficult to assess the long-term implications of the grain embargo, it would be fair to say that there has been a significant shift in world grain trading patterns since it occurred. It is likely that all the major grain-exporting countries, other than the United States, will now become the main suppliers to the U.S.S.R.
>
> In our case, I believe that while the Australian Wheat Board has been a supplier to the U.S.S.R. market over many years, we are now in a position where we can confidently expect significant quantities of Australian wheat exports to be placed in that market. The Australian Wheat Board has underlined its position as a reliable supplier to the U.S.S.R., and this is going to hold us in good stead in maintaining our level of exports.

This is the part I want to emphasize: "It should be remembered that attempts by purchasers to seek long-term agreements, particularly with the United States are due to the fact that that country is now seen as an unreliable supplier." That has been going on not just in the Carter administration—we lost much of our soybean market because of an embargo imposed by President Nixon.

President Ford, I recall, imposed an embargo in 1974. I remember sending him a telegram, "Please do not help me anymore," at that time. It was tough in Kansas in 1974. [Laughter.]

I think this letter from Mr. Sorkin has a lot of good material. We want to hear the witnesses; after all, they have traveled all this distance so we could listen to them, not so they could listen to us.

But I would underscore the point that we understand the need to be responsible. We are not just beating a dead horse because we represent American farmers. As Senator Jepsen has pointed out, farm prices are very low and they have taken a nosedive since the Polish crisis.

There has been no talk of an embargo, per se, but there has been an indication that we would not have further negotiations. There are signs that would indicate that the administration has something else in mind. Until that is clarified, it is difficult for those who supply grain or who would sell grain to the Soviet Union to know whether or not they should proceed.

I understand you will have witnesses later from the grain trade and others who urge that if a sale is negotiated, we should protect those contracts and not interrupt them prior to shipment. I think this area can be addressed by this committee.

So, I thank the Chairman for taking the time for these hearings. As Senator Jepsen pointed out, it is a timely matter of great interest. I am not certain if there are any State Department people testifying. Are there any today?

Senator BOSCHWITZ. Yes, one today, Senator, and the Secretary will be with us on Friday.

Senator DOLE. Secretary Haig?

Senator BOSCHWITZ. Secretary Block.

Yesterday, we had Secretary Haig at the Foreign Relations Committee and there were about seven or eight of us who spoke about that, six of whom are on this committee.

Senator DOLE. I do not intend to criticize anybody at the State Department, but I have been on the committee long enough to know that while the Secretary of Agriculture is giving assurances, somebody down at the State Department is working out the embargo guidelines. [Laughter.]

Senator BOSCHWITZ. Well, we have asked the State Department to attend here this morning as well.

Your comments were interesting on Australia. Australia was one of those countries that agreed not to ship more than its normal level in 1980. "Normal level" became something that was very hard to define and, in 1980, they shipped more than they had in the preceding 4 years combined. So, their assurances that they would not ship more than normal level have not worked too well.

Senator DOLE. I think that is the key point. If everybody wants to cooperate, there is obviously some benefit to a grain embargo.

Senator BOSCHWITZ. Sure.

Senator DOLE. But if we are the only player in the game, it is pretty hard to win.

Senator BOSCHWITZ. Right.

Dr. Cook, let me just ask a couple of quick questions, and then we will get to the other members of the committee for questions.

In speaking yesterday with you, we talked about Argentina and the capabilities of Argentina—their costs of production and what their farmers realize from the grains landed FOB—Antwerp or Rotterdam.

First of all, is Argentina capable of producing more? What would its costs of production be, and would they be competitive with us? Would you just discuss the possibility of their entering into the market in a larger way and capturing some of our exports? We would then be left, of course, with larger surpluses.

Dr. COOK. Well, I cannot give exact figures. I know the USDA has a study going on in the IED department with respect to the supply response of Argentina.

But I have just returned from Argentina and my preliminary results suggest that given incentives, and that is what an embargo does—it raises prices for the Argentines—given incentives, the Argentines could probably, in 5 years, come close to doubling their production.

They are between 25 and 30 million metric tons now in beans and grain; that means 50 million metric tons. Their projected domestic demand utilization is estimated to increase about as fast as that of the United States. That is very slow—1 percent a year. So, the majority of that expanded production would go into export markets.

Now, another study we have going suggests that the efficiencies in both—the United States has a comparative advantage in the world grain trade because of efficiencies at the production level and at the marketing level. It is very important to note that we have efficiencies in both production and in marketing.

The Argentines have efficiencies in production. They use very little fertilizer. Well, for every thousand pounds of fertilizer the United States uses, an Argentine farmer uses 20 pounds. With expanded fertilizer use, they could expand tremendously. But they are very efficient on their marketing side.

Senator BOSCHWITZ. Inefficient.

Dr. COOK. Very inefficient on the marketing side; I am sorry.

With the Soviet Union becoming interested, and it looks like they have a chance to expand their market share there, and with their 4-year bilateral agreement, they are now concentrating on increasing their efficiencies in their marketing system. By increasing that, that makes them a very dangerous long-range competitor for the United States, because if they can reduce their inefficiencies in the marketing system, they become very cost competitive.

This embargo has, without any doubt, motivated and given them incentive to invest this capital into the export market system.

Senator BOSCHWITZ. In other words, without plowing up more of the pampas and by just increasing their percentage of fertilizers—and they now use 2 percent as much fertilizer as our farmers—if they were to increase the percentage of fertilizers, they could probably increase their production, is that correct?

Dr. COOK. Yes; indirectly, yes, with some change in varieties.

Senator BOSCHWITZ. Another interesting thing we discussed was that the Argentine farmers get a very small percentage of the net landed cost in Rotterdam. Let us say that the net landed cost of a bushel of corn is $4, just for the sake of example, in Rotterdam. The American farmer gets 70 percent of that, is that correct?

Dr. COOK. Approximately 70 percent. Thirty percent goes to the marketing system of the CIF Rotterdam price. In Argentina, the producer receives about 35 percent of the Rotterdam CIF price. Now, these are approximates, all right?

Senator BOSCHWITZ. I understand.

Dr. COOK. The marketing system takes up in Argentina about 65 percent of the cost of getting that grain.

Senator BOSCHWITZ. So, therefore, what you are also saying is that the Argentine farmer is satisfied with a very much lower net per bushel than American farmers are.

Dr. COOK. Well, in certain cases he has a lower cost of production; he uses very little fertilizer. But one must speak relatively.

Senator BOSCHWITZ. Fertilizer is about 20 percent of the cost.

Dr. COOK. But one must speak relatively. I mean, you have to talk about the cost of their inputs, et cetera. But, without any doubt, the embargo has given incentive to the Argentines to increase the efficiency in their marketing system. That has not only a short-run impact, but a very costly long-run impact on the U.S. export position.

Senator BOSCHWITZ. So, therefore, if the Argentines improve their marketing systems and their infrastructure and the farmers begin to get a larger and larger percentage of the dollar volume that gets to Rotterdam, they will have great incentive to produce more?

Dr. **Cook**. Yes, sir.

Senator **Boschwitz**. You mentioned in your testimony that we are losing some Mexican contracts, you said, to other countries even at higher prices.

Dr. **Cook**. Did I say that?

Senator **Boschwitz**. I think you did.

Dr. **Cook**. I do not remember saying higher prices.

Senator **Boschwitz**. Cost disadvantage, you said.

Dr. **Cook**. Even with a cost disadvantage, that suggests that either the exporter is taking a smaller margin or the Mexicans are paying a higher price; I am not sure.

They are considering negotiating long-range supply agreements with the Canadians, Australians, and Argentines. That is a new twist in the grain trade in Mexico.

Senator **Boschwitz**. Not many months ago, it was their intention to buy from us.

Dr. **Cook**. I do not think the Mexicans have ever enjoyed buying from the United States, but they considered the United States a very reliable supplier. And because of the 1980 sales suspension and, even more importantly perhaps, the talk and the uncertainty created over the last 2 months by renewed talk of another embargo, it makes the United States, in their eyes, a far less reliable supplier, and therefore justifies their going out and seeking alternative suppliers.

Senator **Boschwitz**. Senator Dole, do you have any questions?

Senator **Dole**. If you use the early-bird rule, I am last.

Senator **Lugar**. I have no questions.

Senator **Boschwitz**. Well, we will use the seniority rule for a moment.

Senator **Dole**. Dr. Cook, how do we put an end to the talk? It is obvious that as long as the Polish crisis continues and the Soviets are involved in it heavily, someone is going to suggest that we do more, and that is going to include grain embargoes.

Do you know of a way to put an end to embargo discussions without some change in the Polish situation?

Dr. **Cook**. Well, I think what I said in my testimony, Senator, was that we have very little historical evidence that an embargo has ever met the goals that it was set out to achieve. Second, there are 12 costs, and probably a thousand costs, but 12 I identified, some of them very costly not only to the producer or the marketing systems, but to the image of the United States itself.

Therefore, I come back and say we must consider alternative actions rather than a food embargo. The cost, as we will see in later testimony, is greater to us than it is to them. My suggestion is to seek alternative reprisals.

Senator **Dole**. Do you agree that we should have paid the interest to the banks, which we agreed to do, apparently—$71 million? I assume all those banks would like to have a grain embargo, but they also want to get their money.

Dr. **Cook**. I have no comment on whether we should have paid the interest or not to those banks, Senator.

Senator **Dole**. I think we are all in the same ball park. I do not know how you finally decide, unless the Soviets start buying some grain and we see it moving. I understand there is some that could be moved now, and I think that would dispel any doubt about de facto embargoes. Is there a de fact embargo? No, because we just sold some grain and it is going to be delivered. Maybe you can sell them some more right away.

Senator **Boschwitz**. Well, they certainly are open to buy. I have not seen statistics of how much they bought since the President has begun to talk. Perhaps somebody can provide us with that.

Senator Lugar?

Senator **Lugar**. I have no questions.

Senator **Boschwitz**. Senator Dixon, do you have any questions?

Senator **Dixon**. First, Mr. Chairman, may I announce that Senator Huddleston, our ranking member, who is otherwise engaged this morning, asked me to announce, Mr. Chairman, that he will submit questions to certain of the witnesses?

Dr. Cook, at the expense of being the devil's advocate here, are you aware of the fact that the next witness, Dr. Paarlberg, will suggest, as I understand it from page 3 of his testimony, that the embargo has not, in fact, in any way diminished our share of the world market?

Dr. **Cook**. I would like to see his figures; I have not read it. I just gave figures that we have gone from 66 to 58 percent of the world market in coarse.

Dr. **Paarlberg**. My figures included wheat as well as coarse grains.

Senator **Dixon**. I see.

I just wanted to suggest to you that on page 3 of his statement, he says, "U.S. grain producers and exporters were being hurt badly in 1980-81 but not by the embargo. They were suffering from inflation, fuel costs, sluggish demands throughout the industrial, the drought, and most of all by high interest rates," and so forth.

He later suggests:

> As a result of these compensating trade shifts by non-Soviet customers, the U.S. share of grain sales worldwide was never reduced by the embargo. In fact, it increased from 55 percent of total wheat and coarse grains exports in the year before the embargo to 57 percent at the time the embargo was lifted in 1980-81.

I must confess that I am personally inclined to support the point of view you have suggested here, but I wonder what you would say about those figures.

Dr. **Cook**. Well, I think if you go through the list of costs I made, Senator Dixon, I do not suggest that the United States lost exports in the short run from the 1980 embargo. As a matter of fact, I seldom address the 1980 embargo. I think Dr. Schuh will be talking about the implications of the 1980 embargo.

My costs were put in from the point of view of long-run loss of market share, putting us in a residual supplier position; the uncertainty that creates and the damage it does to our infrastructure. Therefore, in the long run perhaps it decreases our comparative advantage. But I do not take issue with his statements on that point.

It is very difficult to make the statement he made. Perhaps another economist can explain what caused the net farm income decrease during the 1980's. I think everyone would agree that the em-

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bargo might have played a role, but to put a figure on it, I do not know; it is very difficult.

Senator DIXON. Thank you.

Senator BOSCHWITZ. Senator Jepsen?

Senator JEPSEN. Dr. Cook, you mentioned the particular lack of effectiveness of food embargoes. In your research, did you look at the embargoes affecting other goods, like machinery and minerals, and so forth, and if you did, what did you find?

Dr. COOK. I tried to limit myself to food embargoes, but as I reviewed the history, I came across some that I could not get away from and I kept reading. There was a relatively successful one during the 1930's against the Japanese with respect to industrial goods.

There is no doubt that an industrial embargo—and there are evidences of this—because of the nonfungibility aspect, perhaps has a greater probability of success than food or fungible items, and I raised that point theoretically in this testimony. And I think that gives food or a fungible commodity even a stronger argument against an embargo, using it as the base.

Senator JEPSEN. Well, just as a general statement, if there is anyone who appears before this committee—and I am not indicating that there is—but should anyone appear before this committee and indicate that the embargo has not affected our economy and does not affect the agricultural economy, I would suggest they do not understand anything about the agricultural economy.

Agri-related businesses suffer in direct relationship to farmers' income, and I think Detroit understands that there are not many farm pickups being purchased and I think the John Deeres and International Harvesters, and so on, understand that people are repairing their machinery and not buying.

The psychology of embargoes is so obvious if you just take 10 minutes and visit with somebody on the Commodity Futures Trading Commission or on the markets. It is an absolute disaster, and I think we are approaching the crossroads in this country where a major decision has to be made so we can announce internationally as to whether we indeed are going to continue to stop and go, and impose food embargoes.

Being the bread basket of the world, and being very fortunate, it is one of the few productive things we have left in our economy. It certainly affects the balance of trade payments. The quickest way to self-destruct economically in this country that I know of is to continue to just absolutely shatter and tear asunder our credibility as a reliable supplier.

Senator BOSCHWITZ. Well, thank you very much, Senator, and Dr. Cook. We appreciate your testimony and would like to have a copy of it. Thank you for coming.

Our next witnesses, as a panel, will be Dr. Robert Paarlberg, professor of political science at Wellesley College, and Dr. Edward Schuh, professor and dean of the Department of Agriculture and Applied Economics at the University of Minnesota.

Gentlemen, if you would just sit over here or wherever you find it comfortable. Dr. Schuh has very long experiences in both government and university scenes with respect to agriculture, principally at Purdue, but more recently at the University of Minnesota.

Dr. Schuh, you do not have prepared testimony?

Dr. SCHUH. I do not.

Senator BOSCHWITZ. Dr. Paarlberg, your prepared testimony is quite long, and we perhaps spent a little too much time with the first witness. So, if you could summarize parts of it, it would be fine, and if you want to read the entirety of it, that will also be OK, but we do have some time constraints.

STATEMENT OF ROBERT L. PAARLBERG, ASSISTANT PROFESSOR, POLITICAL SCIENCE, WELLESLEY COLLEGE

Dr. PAARLBERG. All right, thank you.

My major interest is international politics, so I would like to broaden the focus of the discussion a bit, if I may.

Senator BOSCHWITZ. Sure.

Dr. PAARLBERG. When contemplating the use of economic sanctions, too often we narrow our focus to the economic damage that those sanctions can do at home and abroad. We ask ourselves, for example, would a renewed grain embargo on the Soviet Union do greater damage to Soviet livestock producers or to grain producers in the United States?

I believe that it is no less important to address the question of diplomatic strategy. In what way would damage to Soviet livestock production serve the foreign policy interests of the United States?

I will begin with the more narrow question. To project the economic damage that might be done by a renewed U.S. grain embargo, I will use as my standard of comparison the damage done at home and abroad by the recently lifted 1980-81 embargo.

Now, to summarize very briefly assertions that have been persuasively made already, the U.S. grain embargo of 1980-81 placed no significant constraint on the ability of the Soviet Union to import grain for use as livestock feed in 1980-81, because it was temporary, because it was never more than partial affecting only U.S. exports annually above 8 million tons, and because it was unilateral; it was never joined or even supported by other exporters.

So, during the first marketing year of that embargo, Soviet grain imports and feed use both continued to increase to reach record levels, and by the end of the first calendar year of the embargo, Soviet livestock inventories were actually larger than they had been on the eve of the imposition of that embargo.

Now, it is true that meat production in the Soviet Union did decline by about 3 percent during the first year of the embargo, but that was a decline already underway when the embargo was imposed. It was simply the continuation of a trend already in progress and cannot be attributed to the embargo.

Even before the embargo, even with unrestricted access to U.S. imports, Brezhnev's meat production program was going nowhere. We can blame bad weather, unbalanced feed rations, the needless inefficiencies of state farming and central planning; we can blame slower growth rates throughout the Soviet economy. But we cannot blame President Carter's ineffectual grain embargo.

I would also make an assertion that will be more controversial in this setting. I believe it is equally important to observe that the

1980–81 embargo did only rather modest damage to producers and exporters here in the United States.

Grain prices did fall during the first 6 months after the imposition of that embargo, but sluggish prices and a decline in net farm income in the United States had been forecast before the embargo was imposed. It is difficult to disentangle what was caused by the embargo from what would have occurred even without an embargo.

It is hard to blame the embargo for all the slump in farm prices noted in the first half of 1980, precisely because total U.S. grain exports were still growing at a record rate even with the embargo in place. U.S. grain exports to all customers in the first marketing year affected by the embargo increased 22 percent by volume above the level of the previous year. Total grain exports from the United States then continued to increase in the next marketing year, 1980–81, even though the embargo continued and even though the 1980 summer drought had cut U.S. grain production by 11 percent.

So, embargo critics like to say that when we discontinued sales to the Russians in 1980, we shot ourselves in the foot. For the short run, at least, if you look at this continuation in overall export growth in spite of the embargo in 1980 and 1981, perhaps we missed even our own foot.

Now, it is true that U.S. grain producers and exporters were being hurt badly in 1980–81, but I attribute this far more to inflation, high fuel costs, sluggish demand throughout the industrial world, the 1980 drought, and most of all high interest rates, which hurt farmers both directly and indirectly, by driving up the value of the dollar against foreign currencies, eventually slowing export growth in 1981 more than the embargo of 1980 ever did.

Most of the impact of the embargo itself—the 1980–81 embargo—was nullified at both ends by the flexibility of world trade patterns. U.S. grain did not leak through the embargo in large quantities; it never had to. With only U.S. sales to the Soviets constrained, traders responding to price incentives simply diverted non-U.S. grain to the Soviet market. Those that would have ordinarily purchased non-U.S. grain turned to the United States, which had plenty of its own embargoed grain for sale. As a result of these compensating trade shifts in 1980–81, the U.S. share of wheat and coarse grain sales worldwide was not reduced. It was 55 percent during the year before the embargo. It was 57 percent in the 1980–81 marketing year, the year that the embargo was lifted.

I would argue that as long as the U.S. share of the total market remains strong, perhaps we should not begrudge to other exporters a somewhat larger share of the Soviet market. Foreign policy complications aside, servicing so much of the unpredictable and highly variable Soviet market has been, at times, a mixed blessing for the United States. Maybe we should be delighted to see some of our smaller export competitors share in the task of trying to out-guess Soviet needs year after year. We should be happy to see them absorb some of the domestic price and supply disruptions that can be caused by secretive Soviet purchasing tactics.

The Soviet Union, because of the trade shift that has occurred, can no longer so easily surprise the world market through massive purchases that it might make or might not make in the United States alone. Now, it tips its hand by filling a larger share of its needs through a series of purchases throughout the year from a half dozen smaller suppliers. By doing so, it not only spreads the risk of trade-induced price disruptions; it reduces the risk.

Now, with this admittedly benign assessment of the last embargo as my standard for comparison, I will ask how much more we could expect from a renewed embargo in 1982. I believe the answer to this question depends heavily upon the extent of the Soviet provocation that the President might use as a justification for a renewed embargo. If the President wants an embargo that will have a strong impact on the Soviet Union, I believe he must wait for a Soviet provocation in Poland more convincing to our allies than the mere continuation of martial law.

Without the support of other exporters, a unilateral U.S. grain embargo this year would have an impact on Soviet livestock production only marginally greater than the ineffectual embargo of 1980–81. I estimate no more than a 10- to 15-percent reduction in planned feed use in the Soviet Union, between now and midsummer, when new grain from their own harvest starts to become available as a result of a unilateral U.S. embargo effective right now.

It is true the Soviet Union needs more this year; it is true that their reserves are depleted. It is true that since they have already diversified a significant share of their imports away from the United States, the opportunities for them to sustain imports by further diversification have been minimized. But, precisely because of this prior diversification, U.S. grain now supplies a smaller share of total Soviet feed use, so an immediate halt to all further grain shipments to the Soviet Union would produce only modest results. Moreover, the United States would have to pay a somewhat higher price at home in order to gain this effect.

Soviet import needs may have grown in the last 2 years, because they have had three bad harvests in a row, but U.S. export needs have also grown. It would be more difficult this time around for the United States to sustain export growth by redirecting embargoed grain shipments to non-Soviet consumers. Just as the Soviets have already realized most of the gains available through diversification, so have we. A unilateral U.S. grain embargo in 1982 would do a bit more damage to the Soviets, but it would also do a bit more damage to producers and exporters in the United States, all the more so if the embargo this time around were expanded for greater effect to include U.S. grain customers in Eastern Europe.

Of course, the President might be tempted to accept this greater damage at home if he hoped that a renewed U.S. grain embargo would be enough to persuade our European allies and Japan to interrupt their own high-technology exports to the Soviet Union. This, I believe, would be an especially vain hope. It is not U.S. reluctance to punish itself with another grain embargo that has dissuaded our allies from imposing sanctions of their own on the Soviet Union, though this is doubtless for them a convenient excuse. It is instead a fundamental disagreement within the alliance over the long-run benefits of East-West détente and over the short-run extent of Soviet misbehavior in Poland.

A renewed U.S. grain embargo without a more convincing Soviet provocation in Poland would be costly to U.S. foreign policy in at least three respects. First, the failure of others to join would sow further discord among our allies. Second, if the embargo were extended to Eastern Europe, it would weaken U.S. diplomatic influence among Soviet allies, strengthening the Warsaw Pact. Third, and most important, such an embargo at this point might actually provoke tougher Soviet actions in Poland itself. If the United States responds to martial law in Poland today as though it were the equivalent of a full-scale Soviet military intervention, and if we then impose sanctions across the board, what incentives have we given the Soviet Union to stay out? Having already paid the penalty, they might as well commit the crime.

Putting all of these considerations together, I conclude that the cost to the United States of reimposing a grain embargo now, prior to a more visible Soviet intervention in Poland, would far outweigh the benefit.

If, however, a more visible Soviet intervention should occur in Poland, then a renewed U.S. grain embargo would present itself as a far more tempting foreign policy option. Under such circumstances, other Western grain exporters, perhaps even including the new Galtieri government in Argentina, would be less likely to replace U.S. sales by expanding their own exports to the Soviet Union, and they might even be willing to join the embargo by cutting back on sales they are now planning to make.

In this case, assuming the most stringent kind of multilateral grain embargo, effective immediately on further grain shipments to the Soviet Union from all Western exporters, including not just the United States, Canada, Australia, and Argentina, but also smaller exporters—the European Community, Thailand, and Sweden—assuming this admittedly unlikely case of an effective multilateral embargo, planned Soviet grain imports in the current marketing year might be reduced by as much as 20 million tons. Import reductions on this scale might then require as much as a 30-percent cut in planned feed use in the Soviet Union between now and next July or August, when supplies from their own summer harvest start to become available. This would, in turn, imply a sharper reduction in livestock herds.

The longer such an embargo continued, the greater the cumulative damage. But even following a rather brief multilateral embargo, some years might be required for the Soviets to rebuild livestock inventories even to the present level. During this rebuilding period, whatever the outturn of Soviet harvests, per capita meat production would experience a period of noticeable decline.

Of course, just as a multilateral grain embargo of this kind would do greater damage to the Soviet Union, so would it do greater damage to producers and exporters in the United States. Instead of just redirecting Soviet import demand, as in 1980–81, a multilateral embargo of this kind would result in an actual reduction in total demand and a concommitant fall in prices. As a general rule, the greater damage that we do to Russian grain users, the greater the damage that we also do to U.S. grain producers and exporters.

If there is a Soviet invasion of Poland, however, should not U.S. producers and exporters be willing to make the financial sacrifice that an effective multilateral embargo would imply? This brings me at last to the larger question of diplomatic strategy. How would it serve the foreign policy interests of the United States to inflict damage on livestock production in the Soviet Union?

Without denying the political pressure that would build to do something to punish the Russians for an invasion of Poland, and without denying the primitive sort of satisfaction that some might feel from further retarding the improvement of the Russian diet, the substantial political and diplomatic effects of a multilateral embargo would not necessarily be advantageous to the United States.

The additional meat shortages that might result would not provoke enough unrest among Soviet consumers to loosen the grip of the Soviet Union over Eastern Europe, let alone over its own people, nor would these additional shortages be enough to draw internal budgetary resources away from a further arms buildup. Meat shortages are already a way of life in the Soviet Union, yet the rate of increase in arms spending has not decreased.

The experience of a punitive embargo would only reinforce Soviet leadership concerns about the hostile designs of the West, and stimulate a larger investment in military preparedness. Any additional sacrifice that might then be required of Soviet consumers could be successfully explained away as essential to national survival—still a persuasive, evocative political slogan in Soviet Russia. Newly visible enemies abroad might actually make it easier for the Soviet leadership to explain away the failings of their own agricultural programs at home.

We must remember that Russia is not Poland. Domination by a foreign power does not exist to feed dissent. The authority of the Communist Party is not so fragile. Alternative institutions such as the church are either weak or absent, and the population is traditionally more docile. Moreover, the instruments of political control are far more plentiful. I believe that we underestimate our adversary if we believe that the Soviets can be disciplined like unruly children, sending them away from the table without any supper until they submit to our will. A renewed grain embargo would not teach the Soviet Union new respect for the power or for the will of the United States. I believe they would more likely react as they did to an earlier embargo, with defiance, with a certain amount of disappointment in the failure of the United States to understand what they consider to be a legitimate security concern on their own border, and finally with a measure of contempt toward the United States—contempt, inasmuch as they would consider our action vaguely unworthy of a great power.

Our renewed fascination with the so-called food weapon would be taken as further evidence of some confusion here in Washington over what really counts for power in the world today. If our purpose is to earn the respect of hardened, coldblooded leaders in Moscow, and as long as we are asking the American people to sacrifice, why have we not yet resumed mandatory military service? If Soviet military might is as menacing to the United States as the President's own defense budget implies, why are we even discussing grain embargoes? The Soviet Union does not threaten the interests of the United States with its cows, its pigs or its chickens.

I believe that until the United States adopts a more clearly stated policy objective in Eastern Europe—one which is based upon a realistic assessment of Soviet power and a realistic expectation of Soviet behavior on their own borders—our diplomacy will be weakened rather than strenghtened by a knee-jerk recourse to economic sanctions.

Grain embargoes can have their place as a symbolic accompaniment to military preparedness and skillful diplomacy, or as a response to sheer domestic political necessity. But a renewed grain embargo, even an effective multilateral grain embargo, ought not to become the centerpiece of our foreign policy response to a possibly worsening of the crisis in Poland.

Senator BOSCHWITZ. Thank you very much, Dr. Paarlberg.

Dr. Schuh?

STATEMENT OF G. EDWARD SCHUH, PROFESSOR AND DEAN, DEPARTMENT OF AGRICULTURE AND APPLIED ECONOMICS, UNIVERSITY OF MINNESOTA, ST. PAUL, MINN.

Dr. SCHUH. Thank you, Mr. Chairman. As I indicated, I do not have anything to give to you now, but I will have.[1] What I have given your staff are two analyses that we did of the 1980 embargo, one in February, which was shortly afterward, and then the second one which we did 9 months later, and that has quite a bit of data on it. I have already given your staff copies of those papers.

I wondered what I might pull off of my comments that might be useful. I have a feeling, sitting here this morning, that everything has already been said, but let me try to make three or four points.

First, I would call attention to the fact that since 1973, we have had five or six different embargoes or export limitations or restrictions, and make the point that every one of those has been different. I think we have a bit of a tendency to over generalize about these things.

The 1973 soybean embargo was primarily to curtail domestic price inflation, and I think if one wants to evaluate it, one has to evaluate it in terms of that goal. The 1974 moratorium was the euphemism that was used for the suspension of sales to the Soviets. Again, it was very much a short-term phenomenon motivated primarily by domestic price inflation. The 1975 moratorium was primarily to negotiate the longer term grain agreement with the Soviet Union, and I think one has to look at it in that context.

The 1980 embargo, of course, was the most significant case of trying to punish another country by withholding our exports. So, that one was externally motivated, and it seems to me that the one we are having right now, which is almost a de facto embargo, has been created by the uncertainty or the threat of an embargo, where grain companies do not want to get themselves, nor does the Soviet Union want to get themselves, where they can be embarrassed again. So, it ends up being an embargo without anybody really declaring it, and that is really very different than any of the others that we have had.

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[1] See p. 100 for the prepared statement of Dr. Schuh.

Now, the other thing I have in my paper is to sort of hit the highlights and summarize our evaluation of the consequences of the 1980 embargo. Let me just make a couple of points on that, and I could provide more detail if you would like in questioning.

But it seems that most people would agree that there was some grain that the Soviets did not get. There is disagreement over whether they got 4 million tons less or 6 million tons less than they would have liked to have had. But in any case, that would have been a net reduction in total demand for grain that year, and therefore farmers' prices would have been less than they otherwise would have been. I think that is the way one has to put the question.

One can show that trade actually increased, and one can show that except for a few periods, prices were not lower. What is more difficult to show is whether grain prices would not have been substantially higher than they actually were. And I think the perception of most farm people and most agriculturally related people is that they would have been.

I think what makes the 1980 situation very difficult to evaluate is that the very tight credit policies in the first half of 1980 obviously had a very severe impact on the market. There were a lot of farmers, at least in the upper Midwest, who had to sell their grain in order to have operating costs.

If you will recall, we also had rather severe transportation problems in the upper Midwest in the first half of that year. And one always has a hard time disentangling those kinds of things from the direct impact of the embargo.

Again, if one turns to our current situation, the value of the dollar is substantially higher than it has been, again, due in part to the tight monetary policy. That is making our exports, in general, sluggish, but that ought not to be affecting our exports to the Soviet Union. I think, there, one has a chance to sort that part of it out because the Soviets always sell gold rather than to go through the exchange rate. So, they are not all that much affected by that.

I think the thing that has not come out of the discussion that we have had here this morning is the consequence of the uncertainty that gets created in the commodity markets, as we had in early 1980 when we had the Department of Agriculture trying to deal with a surprise—I think that is the only way one can describe that—doing their best and perhaps not doing as well as might have been done, but creating a lot of confusion and a lot of uncertainty in those commodity markets.

The other thing that I think was unfortunate about that particular period was that it led to a great deal of tinkering with farm policy during 1980 as a consequence of what was happening. My interpretation of the 1977 legislation was that it was really an attempt to establish a set of rules that would guide farm policy.

I think most people agree that to the extent you can have firm rules that policymakers or policymanagers follow, that is very stabilizing for economic activity, and that is a desirable thing to have. Instead, we repeatedly attempted to deal with the problem of low prices and the low-income problem by fiddling around with the farm policies, again creating a great deal of uncertainty. Those things are very difficult to quantify, but it seems to me that they end up ultimately being terribly important.

Now, the third thing that I would like to do is to comment on the question of why is it that our friends in the National Security Council and the State Department have this inclination to use the food weapon, when almost any way that one looks at it, one can persuade onself that there is not much clout to it. I think it is important to try to understand that. I think what gets people misled is when they look at the trade data itself and they see in the case of feed grains, for example, that we supply 70 percent of the total exports. Now, that makes it sound like we have a great deal of power in that market.

What is misleading about this argument is that the trade side of it is only one part. The total supplies that come into the market that are involved in livestock and feed grain uses is really a very different matter.

The point is that most countries are only marginal importers of grain. You have a couple of exceptions; Japan is an exception. They import something like 50 percent of their total caloric intake, I think. But most countries are only importing about 5 percent of their total agricultural consumption.

What that does is to limit in a very effective way the amount of market power that the United States might have. I think people go down the wrong road thinking about the petroleum cartel, or thinking about experiences with commodities like coffee. The point is that we do not produce any coffee at all. So, if somebody wants to really put it to us on a commodity like that, they can do it. You have the very same thing in the case of petroleum. There are some countries that produce and others that do not produce it, or produce limited amounts of it.

In that case, the amount of power that you have in those markets is really very different. And I think the subtlety of those differences has been lost on people in the State Department or on people who advocate the use of the food weapon.

The corollary of all of that, of course, is to recognize that your short-term impacts might be one thing and your long-term impacts are something rather different. And I think that the negative part of it is the longer term consequence where you create a great deal of uncertainty in the minds of major importers, and therefore cause them to want to diversify their imports.

Second, and I think this is a much more serious problem, you give every country that is importing something more incentive to be more self-sufficient, and I think that is exactly the sort of thing that you had happen. The Mexicans have launched a very ambitious agricultural policy to become self-sufficient, and they have launched that in part motivated by the consequences of the 1980 embargo.

If you put yourself in the position of being food minister or agricultural minister of almost any other country, you can very easily see how easy it would be for you to decide, "Well, we will not be fully self-sufficient; we will just be a little bit more self-sufficient than we are." But if you add up a whole lot of those little bits of self-sufficiencies, it ends up having a very negative impact on our market over the longer pull.

Well let me make one final point. There is sort of a paradox in our foreign relations, and I have often made the point that this Nation does not recognize the significance and importance of its economic power or of economic relationships in its foreign relations. Yet, it turns around and does things like a grain embargo, which is an attempt to use economic power, but to use it in a very inept way.

I would like to, just as a final set of points, make the point that the agricultural sector can and does play a very important role in our foreign policy, but for it to do that effectively, one would have to do almost the exact opposite of what we have tried to do.

If one just goes down the list and recognizes the very high productivity of the agricultural sector so that we have less than 3 percent of our total labor force feeding not only our own population but a large external market—when we recognize that we can do all of that and have released all of those other resources to the rest of the economy, that is really the key to being a very strong country economically.

Now, one needs to preserve that, and one would like to keep it that way. You do not do that if you knock off our markets over the longer term.

The second part of it is to recognize the very strong economic position that all of those exports give us. In recent years, our trade surplus on agricultural products has been paying for about half of our petroleum import bill. From a very small sector of the economy, really, we have been able to accomplish that amount.

Now, that keeps us in a very strong balance of payments situation compared to smaller exports, and that is the sort of thing that enables us to do what we want to do on the international scene.

Third, there is a great deal of respect for a country like the United States in its ability to feed its own population and to feed other peoples around the world.

The final point I would make on it is that there is great strength in our scientific and technological capability that is an integral part of our agricultural sector, and again that is something that we can use very effectively on the international scene for international purposes. But, again, all of the things that I am talking about require a subtlety that has one going just the opposite direction from putting on embargoes and export restraints.

With that, I will close and I will submit this paper for the record later.

Senator **Boschwitz**. Senator Dole, I saw you looking at your watch and I wonder if you need to leave. I want to encourage you to stay, but perhaps you can ask whatever questions you wish to ask.

Senator **Dole**. I have the Kansas Pork Producers in my office; I cannot leave them there too long.

I want to say that in the next panel, you will have a Kansan testify, Charlie Hamon, president of the American Soybean Association, and I hope to be able to hear some of that.

The name Paarlberg has been familiar in Washington for some time. Is that a relative?

Mr. **Paarlberg**. That is my father.

Senator DOLE. Well, you come well-recommended, then, to our committee.

Senator Dixon pointed out on page 3, but I think you come to the same conclusion as the rest of us do, that without multilateral cooperation among the other countries embargo would not have much of an impact. You have to make the choice of whether it hurts the Soviets. As you indicate, maybe the 1980 embargo did not have that much of an impact on livestock production.

Do you see any relationship between the deficiency payments we are making this year to farmers and the 1980 embargo? That is half a billion dollars that the Government is losing. Could you justify charging that half-billion dollars to the embargo of 1980?

Dr. PAARLBERG. I am sure some of that could be charged to the embargo of 1980, but my guess is that if farmers were given the choice—would they prefer a promise of no more grain embargoes or lower interest rates, lower fuel costs, and faster rates of growth throughout the industrial world, or an end to various other contributing causes to their present miseries—it would be in their interest to stop harping on the embargo, recognize that its impact is real but not all-emcompassing, and pay equal attention to their other equally and perhaps even more legitimate concerns.

By using up all of their political clout to see to it that the last embargo was lifted, and that the next embargo will not be imposed, they miss the point. I do not think there will be any end to their complaints, nor will there be any end to their reasons for complaints. The substantial causes of their distress will still be there.

Senator DOLE. There is no doubt that the big problems in the farm area are low prices and high interest rates.

I think you have both had excellent statements. I would ask whether Dr. Schuh will be submitting his statement?

Dr. SCHUH. Yes.

Senator DOLE. I think we have to look at each embargo on its own. We cannot lump them together as if they have all been in one category or another. As I recall, the 1974 embargo was, as you indicate, due to high prices. There was a lot of pressure on the President—in fact, some from Congress—to do something about prices. There was also a lot of pressure from labor unions who indicated they would not load grain.

There were cases filed by Mr. Gleason among others, of the International Longshoremen's Association. In fact, I think the Farm Bureau was mixed up in that.

Dr. SCHUH. In fact, they did stop loading, yes.

Senator DOLE. Right. So, I think there were a lot of pressures.

But I guess the question we have today is whether there is a declared embargo. There may be, as you indicate, a de facto embargo. I agree with Mr. Paarlberg. If there is no Soviet activity in Poland and direct Soviet aid or other direct participation other than martial law, there should not be an embargo.

How do we get through all these conflicting signals so that we can proceed in the meantime to sell grain to the Soviet Union? Do we have a committee meeting, invite them in, and Rudy makes a deal? [Laughter.]

He is a good salesman.

Dr. SCHUH. I understand that he is; he has quite a reputation in Minnesota for that.

Well, I think the problem is that nobody is credible at this point because in the case of the 1980 embargo, there was a statement, I think, almost the day before the embargo was imposed that there would be no embargo. I think people have good memories on things like that. So I think everybody will not be one and still not really believe it.

It seems to me that the only thing one might do would be to be prepared to say that we will assure delivery of whatever contracts are made in the next month or what have you. That is the only policy kind of measure that I could see that one might take.

I would want to think a second time before I would do something like that, but at least that would get rid of the uncertainty about the exposure question and whether the Government is going to come in and cut across contracts, as it has done in the past.

Senator DOLE. Thank you, Mr. Chairman.

Senator BOSCHWITZ. Thank you.

Dr. Paarlberg, you spoke, and perhaps I will ask Dr. Schuh to discuss his reaction to the fact that there are other factors in our economy today that are a percentage of the total market impact on commodities. Wheat went up slightly in 1980, despite the embargo, and therefore, the impact of the embargo on our farmers was perhaps minimal; perhaps other things impacted them more, if I can restructure your statement.

Dr. Schuh, how would you address that? Certainly, there has been a feeling on this committee that the 1980 embargo did take its toll; in the long term, certainly it would, but what about the short term?

Dr. SCHUH. One has to recognize that the market in 1980 worked amazingly well and there really was a rather significant reshuffling of world trade that year, with a lot of countries increasing their exports to the Soviet Union, pulling away from their traditional markets. Argentina was a perfect example; it turned almost completely away from its traditional markets, and we came in and picked that up. So, there was that very significant reshuffling that took place.

I guess I would come back to the point that almost anybody that looks at it agrees that the Soviet Union got something like 4 to 6 million tons less than it would otherwise have received, and one has to look at that as a net reduction in demand over the total market. Now, if you look at total volume of grain production that year, that is not a great deal, but in those kinds of markets, that does make a difference in them.

Again, I would go back to my point about the uncertainty, the confusion and the risk that gets introduced by these kinds of ad hoc government interventions. Nobody can really predict what it is going to be about, and I think that even in the short term we have a negative impact in markets.

Senator BOSCHWITZ. It is interesting to note a Michigan State study that said that because the European Community was imposing on the world market 7 million additional metric tons of grain, this affected the price worldwide by 50 cents a bushel, which would be a couple of billion dollars, or $1½ billion, perhaps, would be closer. So, the 4- to 6-million-bushel figure certainly would also have an impact on farm prices as well.

Dr. SCHUH. Yes.

Senator BOSCHWITZ. Senator Dixon, do you have any questions?

Senator DIXON. I just thought I would like to ask Dr. Schuh this question. I think one has to concede, having heard all the testimony, that there is some difference between Dr. Cook's attitude and Dr. Paarlberg's attitude concerning the economic consequences for our American farmers in connection with embargoes, although their basic conclusions, I think, are similar.

But I was interested in several points you made that you cannot really put a dollar sign on now, but I think that are so tremendously significant, the first being the effort toward more self-sufficiency by all kinds of countries in the world by virtue of these continuing embargoes and sanctions and threats thereof, first; and, second, the fact that more and more countries are becoming competitors of ours in the world markets as a consequence of this continuing process—Argentina, Brazil, and a lot of others that I could mention.

While I suppose there is not any way you can put a dollar value on that, that has to be a significant thing as the years go on from the standpoint of eroding our possibilities to get a larger share of the world market, I would think.

Dr. SCHUH. Absolutely, and I think the case of Mexico is a perfect example. In recent years, they have become very significant importers of grain, and they were becoming very significant importers; just as they were doing that, then we launched embargoes and persuaded them that, well, maybe that is not the right kind of policy for them to follow. So, you are talking about significant quantities of grain in that case.

Let me emphasize one other point in the case of Argentina, because I feel that the instability question is such a terribly important part of it. What we have done to the Argentines is that the Soviets are now guaranteeing them a market, and so they can invest in their agriculture now. They can invest to strengthen it at a very low risk.

Without that having happened, then they would always feel that uncertainty. "Are we going to be able to compete with the United States or are we not?" So, they consequently would probably not have invested as much. Again, the longer term consequences of that are very significant.

Senator DIXON. May I say, Dr. Schuh, that I am sure you are aware of the Wall Street Journal article of February 1. They refer to that very situation, saying:

> Since the 1980 U.S. embargo on Soviet grain trade, for example, the Soviets have turned Argentina into a virtual trade colony, and the U.S. share of Russian grain imports has slipped to 40 percent from 75 percent. After the embargo, the Russians more than quadrupled their share of Argentina's wheat and corn exports to 80 percent and 88 percent, respectively.

And I might further point out, Mr. Chairman—and I would like to ask that this be placed in the record of this hearing—that a good portion of this article refers to the conditions in the agricultural community in my State, in Illinois and other places, and the desperate circumstances that these folks are facing. And if it has not been already done, I would like to place this in the record.[1]

Senator **Boschwitz**. Without objection, it will be so ordered.

Senator **Dole**. Mr. Chairman?

Senator **Boschwitz**. Yes?

Senator **Dole**. I just want to make one observation, because we are focusing on embargoes. We have other trade problems in addition to embargoes, and it is a matter that we are focusing on at great length in the Senate Finance Committee. We hope to have some joint hearings later with this subcommittee. As we look at some of the nontariff trade barriers in the EC and Japan, I am not certain that the embargo question would be our biggest problem, though it is more easily understood by the American farmer.

There will be some European Community officials in town next week. I think we are planning some hearings next week, in case you want to attend. We have gone beyond the rhetoric stage, I think, as far as Japan and the EC are concerned.

If you had to prioritize, in addition to the interest rates and other things, maybe the area that the farmers should focus more on, notwithstanding their interest in embargoes, is some of the other trade problems we have where we do not get our fair share of the market because of barriers.

Senator **Dixon**. Mr. Chairman, when are we coming back? I must leave right now; I have people in my office.

Senator **Boschwitz**. When are we coming back?

Senator **Dixon**. Are you going to adjourn for lunch or are you going to go right on through?

Senator **Boschwitz**. We are going to try to wrap it up before lunch and we will probably go for another hour.

Senator **Dixon**. I very much regret that I have to leave, particularly since my good friend, Bill Mullins from Illinois, with the National Corn Growers Association, is here. I would like to mention his name and apologize to him for my need to leave right now.

Senator **Boschwitz**. Well, come back if you can.

Senator **Dixon**. I will try to get back.

Senator **Boschwitz**. I quite understand.

Senator Dole, we look forward to holding those joint hearings, as we have discussed. We hope to hold hearings later this month about trade barriers established by the Japanese, who, despite those barriers, are our single largest customer.

I think we held productive hearings that helped in negotiations with the European Community when they were considering establishing a levy on soybeans. The import of soybeans to the European Community, as you point out, is a larger dollar volume, really—with soybean, soybean products and corn glutens—than what we are talking about to Russia.

Nevertheless, the great interest in the embargo question, in my judgment, stems from the fact that commodities such as corn and grain fluctuate so broadly and so wildly sometimes when there is a slight change in either production or demand. Therefore, it is my judgment that, certainly, embargoes do impact upon that.

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[1] See p. 126 for the article from the Wall Street Journal.

I might ask Dr. Paarlberg, do you agree with the statement that embargoes do have an impact on the marketplace? While other things may have, indeed, had a greater impact on it in 1980, do you also agree with the statements of Professor Schuh that the long-term impact of the embargoes—the Mexican example was cited, the Argentine example has been cited, and other examples can be cited—may mean a long-term reduction of markets available to our farmers?

Dr. PAARLBERG. Yes, I think more in 1982 than in 1980. As I said, the gains that the United States can realize by diversifying its exports away from the Soviet Union have largely been realized. And further talk of embargoes and further interruption on sales to the Soviet Union will not, this time around, bring to the United States as many non-Soviet customers. The net effect on U.S. producers of renewed talk about an embargo in 1982 is probably already as great as the total effect of the real embargo in 1980 for that reason.

Senator BOSCHWITZ. Well, thank you gentlemen. Senator Dole, unless you have further comments, we will have our next panelists come up.

Our next panel will be a producer panel: Wayne Nelson, National Association of Wheat Growers, accompanied by Carl Schwensen, who is the executive director; Bill Mullins, whom Senator Dixon just spoke about, president of the Corn Growers Association; and Charles Hamon, the president of the American Soybean Association.

Maybe we will take a quick, 1-minute recess.

[Whereupon, a brief recess was taken.]

Senator BOSCHWITZ. We are going to interrupt our planned schedule here for a statement from my colleague from Minnesota, Senator Durenberger.

Senator, we will put the entirety of your statement into the record, and whatever parts of it or its entirety you wish to give at this time. We welcome you to the committee.

STATEMENT OF HON. DAVID F. DURENBERGER, A U.S. SENATOR FROM MINNESOTA

Senator DURENBERGER. Thank you very much, Mr. Chairman. I appreciate the opportunity to put the lengthier statement into the record and quote from just part of it, and I think finish by quoting just one of many Minnesotans that testified before a variety of meetings on the economy that I had in Minnesota.[1]

In my opinion, the use of food as a weapon is bad policy; in fact, I think it really is horrible policy. Despite America's immense market power, we cannot embargo the world. Competitors like Brazil, Argentina, and the Common Market have the resources to increase production and move into the markets that we vacate. We also must recognize the near impossibility of monitoring the actions of those who purchase American grain and pass it through to the embargoed nation.

So, to put it simply, we do not have an OPEC in grain, and the United States just cannot go it alone.

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[1] See p. 97for the prepared statement of Senator Durenberger.

But beyond the difficulty of imposing an agricultural embargo, there is a more fundamental reason, in my opinion, to oppose the use of food as a weapon, and that is simply that food embargoes punish people.

We may be lucky in the Polish situation to have CARE and Catholic charities and some other vehicles so that the people in Poland, where we talk about food as a weapon, are not hurt as much as they might be. But as a practical matter, it is because of the relationship between people and food that we cannot use embargoes.

The success of food embargoes depends on the ability of the people in the embargoed nation to change the attitudes and the policies of their government. If anybody here believes that the voice of a Russian peasant, or 100,000 Russian peasants or 5 million Russian peasants is going to change the policy of a totalitarian government, they have not done any history research, they have not done any political science research, and they just do not understand the problem.

I am going to share with you, in conclusion, Mr. Chairman and members of the subcommittee, a part of testimony I received from a young farmer by the name of Jerry Benz down in Fairmont, Minn. This was the last of seven hearings I had on the economy, and in every one of them we heard the things that you and I, Mr. Chairman, and Senator Dole and others of our colleagues have been hearing for probably the last 3 years.

I am going to quote directly from something Jerry said. "Our problems," he said, "seem to stem from the fact we have been encouraged by past administrations and the current administration to produce more and more efficiently and rely less and less on government support. I cannot argue with that position; it can be made to work."

> However, if we are to compete in the free market, we have to be allowed a free market. In effect, past administrations and, currently, the present administration have determined that they will use food as a weapon in determining policies. I cannot be expected to raise a crop and compete with world markets if this is going to be the case.
>
> If the government continues to pursue this policy, we may be better off removing farm programs from the Department of Agriculture and putting them in the defense budget, because that is what we are doing. We are supplying weapons in much the same manner that Lockheed supplies weapons. They are guaranteed costs plus a percent.
>
> If the government is going to continue to pursue this policy of using food as a weapon, then we the farmers of America should have the same guarantees.

That is the end of an excerpted quote, and I think Jerry is painting a very good, relatively simple, but very straightforward and realistic picture of the American farmer's situation.

The Government tells the farmer to produce as much as possible, it tells them not to rely on the Government, but then robs them of their market. So, the American farmer is saying, in effect, to his Government, I guess, "Let us produce freely, and let us also market freely. If food is to be used as a weapon, then put the farmer in the defense budget and give him the same opportunities and benefits as any other defense contractor, and we will have a military-industrial complex that includes the American farmer."

That is not the way they want it to go, but that seems to be the only "out."

So, Mr. Chairman, you and I know that is not the answer. The answer is simply this: No more food embargoes and, like taxes and revenue enhancers, no more food sanctions or embargoes by any other name.

You have already heard from Ed Schuh today, I understand. To my colleague on my left, I want to say I hope you listened, if you were here, to everything Ed had to say. He is a tremendous guy. I have got him on my economic task force back in Minnesota, and he is particularly well-suited for the task of speaking to this subject because of the importance of agriculture in my State.

You will hear from Russell Schwandt, who is president of the Minnesota Agri-Growth Council. Russell is a person who has had a political background; I promised not to refer to it as it relates to me. But I did want to say that when I was in the last Republican administration in Minnesota in the Governor's office, we inherited Russell Schwandt. He was appointed by a Democrat as commissioner of agriculture, and it was one of our best inheritances because under the Minnesota law, we could not kick out our predecessors; we were stuck with them.

Well, on reflection, Russell Schwandt was one of the best things we ever got stuck with, and I commend to you his statement on behalf of one of the largest industries in our State, Mr. Chairman, about the subject which you bring to our attention both timely and appropriately, and I think importantly, to the economic well-being of this country, and I thank you for doing what you are doing today.

Senator BOSCHWITZ. Thank you very much, Senator. It is a shame you had to hold on to all those Democrats. [Laughter.]

I suppose they were not all as good as Russell.

We now are going to our producer panel, and we will start with Wayne Nelson. I have a short statement from Senator Abdnor, Wayne, saying a whole bunch of nice things about you; that you are a wheat farmer up near Winner, S. Dak. and that you have been extremely active nationally and statewide in wheat affairs.

We welcome you to our panel, and your statement is not long and if you choose to read it, go ahead.

Mr. NELSON. It is short.

Senator BOSCHWITZ. Short and to the point.

Senator DOLE. It is like the price, is it not?

Mr. NELSON. Right.

Senator BOSCHWITZ. OK.

Senator DOLE. Mr. Chairman, I am going to have to leave. I have taken an opportunity to glance at the remaining statements and appreciate your testimony. Thank you.

Senator BOSCHWITZ. Thank you for coming, Senator.

STATEMENT OF WAYNE NELSON, PRESIDENT, NATIONAL ASSOCIATION OF WHEAT GROWERS, ACCOMPANIED BY CARL SCHWENSEN, EXECUTIVE DIRECTOR

Mr. NELSON. Mr. Chairman and members of the subcommittee, the National Association of Wheat Growers is pleased to have this opportunity to appear before you to present our views on farm export embargoes.

In this regard, I want to commend you for the timeliness of this hearing, since I believe that we have a chance here today to explain what takes place when an embargo is implemented or even threatened, and to assess the short and the long-term costs of such actions to farmers and to the Nation.

Mr. Chairman, it is clear from the recent twists and turns in U.S. foreign policy that the concept of linkage between trade and political considerations is firmly in place. On January 4, 1980, former President Carter embargoed 18 million tons of grain sales to the Soviet Union in response to Soviet intervention in Afghanistan.

On April 24, 1981, President Reagan lifted the 16-month-old grain embargo and, on August 5, 1981, a 1-year extension of the 1975 United States-Soviet Grain Supply Agreement and intentions to develop a new agreement were announced.

By October of last year, the United States was indicating that it welcomed Soviet grain purchases of up to 23 million tons, although other factors delayed the scheduling of grain agreement talks.

On December 13, 1981, martial law was declared in Poland, and on December 30 President Reagan announced a set of limited sanctions against the Soviet Union which included the postponement of talks regarding the negotiation of a new United States-Soviet Grain Agreement.

President Reagan has recently stated that broader action would be taken against the Soviet Union if the Polish situation continues to deteriorate. We see abundant evidence to indicate that the U.S. farmer has become a tool of our Nation's foreign policy. The Government has boldly interferred with U.S. farm trade while encouraging farmers to rely on the marketplace for adequate incomes.

Wheat is an export commodity, and at least two-thirds of each year's production must be exported if farmers are to have any hope of achieving adequate prices. This growing dependence on exports has increased fluctuations in market prices and farm income, and it has also placed the farmer in a position where foreign policy developments can inflict great economic damage.

Moreover, the use of food as a foreign policy tool creates doubt among our customers over the reliability of the U.S. market. Targetted nations are not the only ones who question a policy of becoming dependent on U.S. supplies, since other nations may not wish for the same reasons to become tied to U.S. export policies.

Since the opening of the 1970's, the United States has followed a path of increasing market orientation in its agricultural policy, and this course was accelerated in the Agriculture and Food Act of 1981 just recently adopted by Congress. Sadly, however, successive Presidential administrations have failed to respect the principles of this policy in the conduct of the Nation's affairs.

The 1973 soybean embargo was the first clash with market-oriented farm policy. In 1975, again for domestic political purposes, all grain sales to the Soviet Union and Poland were halted. The 1980 Soviet embargo was implemented for national security and foreign policy reasons, and an attempt was made to enforce the multilateral suspension of sales to the U.S.S.R.

However, of the 5.7 million tons of suspended U.S. grain that the Soviets were able to replace during the period of the embargo, 68 percent was shipped from countries which had informally agreed to cooperate with the U.S. grain sales suspension.

The unilateral sanctions applied to the Soviet Union in late 1981 represent still another blow to market-oriented farm policy by the Government. As we see it, farmers now must attempt to function in an environment in which the Government has become the most powerful force in the marketplace.

Mr. Chairman, we have seen wheat market prices melt under the heat of the Polish crisis, and the possibility remains that our Government may decide to unilaterally halt all grain trade with the Soviet Union. Farmers gain little comfort from the President's pledge that any future embargo will be total and will not just apply to farm commodities.

Nearly 80 percent of U.S. trade with the Soviet Union is agricultural, and any general trade suspension would obviously impact farmers more than any other sector of the economy. The grain markets likewise fail to be comforted by the President's statement, and they continue to reflect the risk and the uncertainty of an across-the-board embargo of Soviet grain sales.

As we see it, there are several important factors that must be considered regarding use of the food weapon under current circumstances. The most important is the apparent lack of interest on the part of competing grain exporting nations to join in a multilateral denial of grain to the Soviet Union. Consequently, the existence of alternate suppliers is sure to undermine the effectiveness of a unilaterally-imposed U.S. export control and render the action symbolic rather than substantive.

This symbolism would not come cheap. The United States now holds 27 percent more wheat in its inventories than it did 2 years ago when sales to the Soviet Union were last embargoed, and market prices are averaging below the depressed level of 1980. An embargo of the type implemented by former President Carter would be far more disruptive now than it was in 1980, and given the budget deficit, one must question the Government's future willingness to shield farmers from the direct impact of a grain embargo.

We do not argue against the use of export controls to further this Nation's security when it is determined that exports contribute to the military potential of an adversary. However, we feel strongly that any use of controls for national security or foreign policy purposes should be applied only with the cooperation of other nations. Under these conditions, the Government must also carry out the responsibility it has to protect the incomes of those who will be directly damaged by its market intervention.

Thank you again for this opportunity to appear before your subcommittee, and I will be glad to try to answer any questions after the panel is over.

Senator BOSCHWITZ. Thank you very much, Wayne.

We now will turn to Bill Mullins. Bill, we will ask you, since your statement is a little over 11 pages long, although the pages are short, to be sure, that, where you can, we would appreciate your summarizing it.

Mr. MULLINS. Thank you, Mr. Chairman.

Senator BOSCHWITZ. Particularly in hearings of this type, we get a little repetitious sometimes. You seem to have some new information there and we do not want you to overlook that or skip over it.

STATEMENT OF WILLIAM R. MULLINS, PRESIDENT, NATIONAL CORN GROWERS ASSOCIATION, ACCOMPANIED BY JOHN STEVENSON, VICE PRESIDENT, LEGISLATIVE AFFAIRS

Mr. MULLINS. I was going to suggest, in the interest of time and the repetition that you mentioned, that I will hit about three main points—to summarize my statement.[1]

I appreciate, first of all, that you are taking the time of your committee to address this very important issue to a very depressed agriculture. I would like to also introduce John Stevenson, the president of the Ohio Corn Growers and vice president of our legislative committee.

Senator BOSCHWITZ. It looks like he has got some gray hair at a young age. Is it due to the price of corn?

Mr. STEVENSON. Embargoes.

Mr. MULLINS. This morning in a meeting with Secretary Block I picked up a document dated January 29, 1982, which shows the total net farm income by States in the United States; it graphically demonstrates the depression in the farm economy.

In the year 1979, and I looked at Illinois particularly—I am a corn and soybean farmer from near Chicago, Ill., Shabbona, Ill.—the net farm income was just about $2 billion in 1979. In the 1980 figures, it has dropped down to $200 million, and I dare say that the 1981 figure will probably be negative. I think this just emphasizes where we are at in the farm community and our concern.

My first point is that I think we have to define our problem. It is common rhetoric that we have an oversupply problem. This is true; we do have an oversupply problem, but it is not because of overproduction. It is caused because our demand has been restricted in the world market.

In the decade of the seventies, producers were asked to go out and produce fence row to fence row; we would have the opportunity to participate in free world trade internationally. We have an agriculture that is as efficient in production and in reliability of supply as any in the world, and so we set out as producers to accomplish this goal. And we did.

In 1971, we produced 4.2 billion bushels of corn. Ten years later in 1980-81, we produced 8.2 billion bushels. This is a 95 percent increase, and this increase did not come from increased acres. I think we increased our acreage maybe 10 million acres. It came from increased efficiency in land use, modern technology, and agronomic practices.

Also in the eighties, we had some consistency in Government policy.

Senator BOSCHWITZ. Did you mean in the seventies or in the eighties?

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[1] See p. 103 for the prepared statement of Mr. Mullins.

Mr. Mullins. In the decade of the 1970's. Starting off with the Nixon administration, President Nixon embargoed soybeans.

Senator Boschwitz. You had some inconsistencies.

Mr. Mullins. No; we had some consistency. They all disrupted our overseas markets in one form or another. [Laughter.]

President Nixon with the soybean embargo; President Ford with the embargo to the Soviet Union and Poland; President Carter with a total embargo to the Soviet Union; and now President Reagan with suspension and sanctions and de facto-type embargoes.

So, I think this is the issue we are talking of today. We have this consistency in Government to want to use our demand that we have been asked to produce for. And I think the thing that we have to accomplish today is to determine whether or not we are shooting ourselves in the foot, as has been talked of earlier, or whether we are really effective in changing world policy because of our trade sanctions.

I think it has been pretty much proven by the testimony so far that food embargoes have been virtually ineffective in changing political policies in other countries. I think the one thing that the restriction has done is determined that the United States has been a very unreliable supplier of food to the world market. U.S. food embargoes have encouraged production in other parts of the world because of our actions. I think the Soviet embargo is a good case in point.

In the early seventies, Brazil was producing 1.5 million metric tons of beans; in the 1980's, they produced 15 million metric tons of beans. They did this because of the fear of buyers in the world market to our reliability as suppliers. They wanted to diversify their purchases. They could not rely on the United States to be a consistent supplier of food for their nations.

I think the current relationship we have with the Soviet Union is telling them the same thing. I traveled to Moscow twice since the embargo imposed by President Carter, once in September 1980, and the second time in November 1981. The mission that we went on was to try to keep communications open between the two countries, because we know how important that trade is to our economy, and especially to the agricultural economy.

We think that we could provide more for this Nation's security by improving our own domestic economy through selling products that we can produce more efficiently than any place else in the world.

One of the points that sticks in my mind from our trips to Moscow was the lack of communication between the two governments. I think any time we have a government that has different views than ours and we do not communicate with them or try to work on a friendly basis with them, we are asking for long-term problems.

So, I would feel that we could do more for national security by keeping a close trading relationship, keeping some reliance on us for their food, and letting us show that we are credible and we can supply that food to them.

How much did this embargo cost our economy? We have had economists talking on this issue. A figure that I can relate to is that the price of corn has gone down $1.30 a bushel in the last year; let us say a dollar a bushel. We produced an 8-billion-bushel crop; that is $8 billion that the corn producer has had taken out of his pocket.

Now, granted, there are other causes other than the embargo; it has been interest and inflation.

Senator **Boschwitz**. And the 8 billion bushels.

Mr. **Mullins**. And 8 billion bushels.

But how much demand would there have been in the Soviet Union if their livestock had been increased because they were able to get normal trade? How much extra revenue would that have added to our economy?

Senator **Boschwitz**. You are singing my song.

Mr. **Mullins**. I know we are all saying the same thing, in a sense. But there is a 10-to-1 multiplier of how much economic activity is generated domestically in our economy through the interrelationship of agriculture and agricultural industries. I think you can pretty well see what is happening with the industrial side of the ag economy. I know farmers in Illinois sure are not looking to buy new equipment when we are looking at deficit net income for the year. Consequently, the auto and truck industries are faced with similar declines in profits.

Consumption of farm materials—seed, feed, fertilizer—are all going to be depressed. This is going to result in people losing jobs in our economy, when we are already at 10 percent, or so, unemployment. How much damage are we really doing, and whom is it done to?

I think we are hurting ourselves far more than we are hurting the Soviets, or changing their philosophy.

The last point I would like to talk about is something that we have not really talked about too much so far today, that is, what are we going to do as a solution?

We in the National Corn Growers Association think that our No. 1 goal out of this committee and these hearings should be, one, to identify and define the long-term goals and the role of the U.S. Government in a consistent and reliable corn production and export trade policy.

We have to know what we are really going to try to accomplish as a nation. Are we going to have free international trade, or are we going to use agricultural exports as a national security tool? We have to identify and define this.

Second, we have to establish somewhere in the executive branch in the U.S. Government, in the U.S. Department of Agriculture or elsewhere—an entity responsible for maintaining the consistency and reliability of U.S. production programs and export trade policies.

Third, to get out of the current economic depression that we have, I think there have been some suggestions of what we can do short term—some band-aid-type approaches. I think we can give some assurances. If we really have access to supplying the world market, as I hear so much in the news media, I think that we can give some assurances on a short-term basis, possibly, or some way to increase our credibility on the world scene.

I have had a couple of calls from Japan shortly after the President announced his sanctions, and I am sure their concern was "are they going to use food against us for something that we did politically? Maybe we decided to supply the Soviets." How reliable are we going to be?

I think we have to determine that, and I cannot emphasize enough the severe depression in the farm community. We certainly compliment you on your hearings, and I hope out of this committee will develop legislation that will give us a well-defined trade policy with some teeth in it. If we are going to deter such a policy, then somebody should be responsible financially for lost farm income because of embargoes.

I thank you very much.

Senator BOSCHWITZ. Thank you. I will answer some of your questions and statements in a final statement.

We will go now to Charles Hamon, president, the American Soybean Association.

STATEMENT OF CHARLES HAMON, PRESIDENT, AMERICAN SOYBEAN ASSOCIATION

Mr. HAMON. Thank you, Senator. I greatly appreciate this opportunity to appear before you and review the devastating impact of the 1980 Soviet embargo on the Nation's soybean industry, individual soybean farmers, and soybean processing industry.

Our industry is today in a near crisis condition because of low prices, and there is absolutely no doubt that a lion's share of the cause of these low prices is lingering impact of the futile Soviet embargo.

Instead of learning the expensive lesson that embargoes of commodities do not work, hard-liners in the foreign policy community stand ready to take the same steps again. Will they ever learn, or do they just have a desire to make America's farmers pay for their failures?

Our claims are easily proven. In the year prior to the Soviet invasion of Afghanistan and the imposition of the Soviet embargo by President Carter, the United States sold 1.9 million metric tons of soybeans and soybean products to the U.S.S.R. The value of these exports was $511 million, making the U.S.S.R. our fifth largest soybean market.

Upon imposition of the embargo, almost a million metric tons of previously announced sales to the Soviets were canceled and thrust back on the U.S. market. Almost immediately, farm gate prices for soybeans dropped. There has been some discussion this morning about whether prices did drop or not, and I did some checking.

After the embargo was imposed, on January 4 when the market opened again, there was a limit-down market on January 9 and January 10, and a 12-cent-down on the next day. So, it is very obvious to us that there was almost a $1 depression in the market immediately.

Even with the drought of 1980, we conservatively estimate that the embargo reduced the value of the record 1979 crop by an average of 75 cents a bushel, or about $1.7 billion for the entire crop.

Moreover, we believe the value of the 1980 crop was depressed by at least 50 cents a bushel by the embargo, or $930 million overall. While this year's crop is only partially marketed, we again believe prices are depressed by at least 50 cents a bushel, or $1.1 billion, by the lingering impact of the embargo.

Thus, we believe the embargo has already cost this Nation's soybean farmers about $3.75 billion, and that is money that could have been used to pay the rising farm debts, purchase farm equipment and supplies, and to otherwise invest in future productivity.

The irony of the 1980–81 Soviet embargo is that while U.S. soy growers and processors were devastated, it did not prevent the Soviets from getting their needed soybean supplies. During the embargo, the U.S.S.R. purchased at least 1 million metric tons of soybean meal from Europe. Most of this meal was produced from U.S. soybeans purchased at distressed prices, with the European crushers making windfall profits as processors.

Both Brazil and Argentina have signed long-term agreements to annually supply the Soviets with 500 metric tons of soybeans or soybean products.

Senator **Boschwitz**. Did you mean 500,000 metric tons?

Mr. **Hamon**. I am sorry; excuse me, sir.

Counting the 677,000 metric tons of U.S. soybean sales to the U.S.S.R. this marketing year, the Soviets are importing just as many soybeans as they were prior to the embargo. The difference is that the U.S. share of their purchases have dropped from nearly 100 percent to currently 40 percent.

Brazilian annual soybean production has been expanded by over 1 million metric tons since the embargo in response to the increased Soviet demand, and the U.S. share of world soybean exports has declined as a result.

Unfortunately for U.S. soybean farmers, the 1980 embargo is only the last embargo we have had to endure. In 1973, the U.S. Government embargoed the shipment of soybeans and products because of short supply and high prices. Our valued trading partners and allies, Japan and the European Community, were suddenly stopped from purchasing the U.S. soybeans they needed.

Their response was to invest billions of dollars in Brazil and Argentina to expand soybean production in those nations to serve as an alternate source of supply to the U.S. market they saw as undependable. As a result, Brazil has expanded its production from just over 5 million metric tons in 1973 to an estimated 15 million metric tons this year. Argentina has expanded its production from 272,000 metric tons in 1973 to almost 4 million metric tons in 1981. The single most important factor in the phenomenal growth of Argentine and Brazilian soybean production was clearly the 1973 U.S. soybean embargo.

Mr. Chairman, I can cite example after example of how soybean producers, processors and America, in general, have suffered from the 1980 embargo. I do not believe embargo proponents can cite a comparable list of examples of how the 1980 embargo or any previous embargoes have made America more secure.

We cannot understand how anyone can today realistically consider imposing another embargo. The costs are just too high.

I appreciate the opportunity to appear before you today and to express our thoughts on embargoes, Senator.

Senator **Boschwitz**. You heard Dr. Paarlberg before, Mr. Hamon, talk about the fact that our overall percentage of world grain—would that include soybeans?

Dr. **Paarlberg**. It did not include soybeans.

Senator **Boschwitz**. It would not include them?

Dr. **Paarlberg**. My figures did not include soybeans.

Senator **Boschwitz**. What was the result of soybeans being one of the largest elements in our commodity trade? Do you have a figure on how much we exported the year before and the year after? Was there a decline?

Of course, if you say 1 million tons of soybean meal was shipped by the European Community, which is a very large importer.

Mr. **Hamon**. Well, our point is they went through the European crushers, and it hurt the crushers here in the United States. They are operating even today at much less than full capacity, and the value-added that would have been due to the processors, we lost. Also, the Europeans were able to buy the beans in, we feel, a very depressed market situation.

Senator **Boschwitz**. Some people claim that the Russians actually made a little money on the basis of the embargo because of the price going down. Certainly, it cost the U.S. Government, I believe about $500 million, to make good on some of the contracts that had to be canceled by the exporters.

Due to the fact that the price came down, as you indicated, in the days following the imposition of the embargo, grain and soybeans went down the limit day after day after day, as I recall it. It is possible that the Russians were able to go out and to replace the contracts even at lower prices.

Do any of you have any evidence of that, either in wheat, corn or soybeans; that the Russians were able to buy at lower prices than they would have purchased in the event an embargo was not imposed?

Part of the argument is, of course, that it cost the Russians a lot more dough to go out into the world markets and buy.

Mr. **Mullins**. I can relate a little to that. When we were in Moscow, they indicated they felt the prices had not stopped going down at that point in November. One of the reasons was because of the sanctions that we had imposed and that we were talking of with them. It created a depressed atmosphere for corn prices, so they could pick up their product from all the other countries and use us as strictly a residual supplier until they had that consumption made.

Senator **Boschwitz**. Was there any impact on what they bought in wheat over the long term? I presume they saved quite a bit of money.

Incidentally, in response to one of your comments, I believe that we have a pretty good ongoing negotiation with the Russians on the various agricultural commodities and, to the best of my knowledge, it is continuing even now.

Mr. **Mullins**. The talks for the new long-term agreement have been indefinitely suspended.

Senator **Boschwitz**. I understand that those talks have been canceled.

Mr. **Mullins**. And that is going to be one of the key issues that creates credibility in the U.S. market.

Senator **Boschwitz**. Well, I believe that other talks are continuing, so there is not an absence, certainly, of contact between the two countries on agricultural matters.

We thank you gentlemen for coming and we are sorry you had to wait so long. I will read the entirety of all your testimony, and we appreciate your coming.

Now, we have Russel Schwandt, my friend from Minnesota whom Senator Dave Durenberger spoke about, who, despite his political affiliations, is indeed a much-admired Minnesotan.

Russ, we welcome you.

STATEMENT OF RUSSEL G. SCHWANDT, PRESIDENT, MINNESOTA AGRI-GROWTH COUNCIL

Mr. **Schwandt**. Mr. Chairman, at the outset I want to express my appreciation to you for holding this hearing. I personally want to correct any assumptions that might remain in the record after my good friend, Senator Durenberger, made his comments.

I am very proud to be a supporter of Senator Boschwitz and Senator David Durenberger, and I am totally proud to have two fine representatives who understand that agriculture is important to this Nation's economy.

Senator **Boschwitz**. Well, it is a good thing they kept you on when the Republicans came in then.

Mr. **Schwandt**. Well, they could have gotten me off. I offered to resign.

I am a former commissioner of agriculture. I live on a farm in southwestern Minnesota where I was born.

Senator **Boschwitz**. Do you live on the same farm?

Mr. **Schwandt**. Same farm. I go to bed at night about 8 feet from where I was born.

I am in the fertilizer and chemical business. I am a commissioner on the Port Authority of Duluth, having been appointed there by Gov. Al Quie. I am also president of the Minnesota Agri-Growth Council, which is an umbrella organization designed to serve as a cohesive force to bring all aspects of agriculture together, and we have been doing that for the past 14 years.

During these 14 years, the Agri-Growth Council has taken key positions in the forefront of every major issue posing a potential threat to American agriculture. Among the issues this organization and its members have been most vocal on has been this country's inexplicable and unconscionable reliance on agricultural embargoes as a tool of international diplomatic punishment.

Since those days in the mid-1970's when then President Ford imposed the first ill-conceived agricultural embargo right down to the day, last year, when President Reagan lifted the Carter-imposed embargo, the Agri-Growth has voiced one opinion, and one opinion only, on agricultural embargoes of any nature. We are irrevocably and unalterably opposed to any and all embargoes or sanctions that in any way interfere with the free market process that American agriculture needs in order to prosper in the world marketplace.

We believe in the philosophy espoused by our State's much-admired late Senator, Hubert Humphrey. Senator Humphrey, in talking about whether we ought to sell food to the Russians, used to say repeatedly, "We ought to sell anybody anything they cannot shoot back."

Gentlemen, we are on our backs in the Midwestern States of this country. The Farm Belt of this Nation is down and taking the economic count.

When you couple the disastrous effects of the 1980–81 Russian grain embargo with record-high interest rates and depression-era farm prices, it is a wonder there is any farm economy left to talk about. Yet, as bad as it is, it could get a lot worse if this Nation succumbs to the stupid reasoning that another embargo must be imposed to teach the Soviets some kind of theoretical lesson.

After what happened in the last two embargoes, you would honestly think that an embargo would be the last thing any responsible Government official would ever recommend. One look at the General Accounting Office report on the cost and total ineffectiveness of the last embargo, should be lesson enough.

The GAO calculated that the cost to the U.S. taxpayer of shipping and storage of some 8.3 million metric tons of grain purchased in an effort to offset some of the economic effects of the embargo was in excess of $1.1 billion. That is a lot of money, but as incredible as these huge expenditures are, they pale with insignificance when you total up the loss of purchasing power, the loss of jobs, and the drop in farm income all directly attributable to the last embargo.

Experts tell us that another embargo would drop the already disastrously low farm prices another 50 cents a bushel. The long-term results would create such a depressed agricultural economy that the sale of industrial machinery, autos, trucks, appliances, furniture, and so forth, would come to a virtual halt over the entire Midwest of this Nation.

Remember, agriculture is one of the best customers the industrial section of our economy has ever had. Agriculture is a big purchaser of the products that use steel, rubber, and a multitude of other labor-produced items.

Consider for a moment just some of the negative economic spin-offs from these embargoes. An embargo has an immediate negative impact on every grain miller, the grain handlers, the teamsters, the longshoremen, the stevedores, and so on, just in the necessary cutbacks in transportation of our agricultural exports.

When agriculture and its service industries stop buying goods and services due to an embargo, their spending cutbacks adversely affect everyone from the automaker to the candlestick maker.

Last April, I spoke out loudly and frequently in voicing my praise for our President when he lifted the last embargo. And I feel that in his heart, President Reagan understands what I am saying here today; at least I feel confident that he realizes that if he succumbs to the antiquated, bungling advice coming from the State Department to impose another grain embargo, it would be a terrible, possibly fatal shock to the economy of this Nation.

We of the Agri-Growth Council would enthusiastically support, as would the entire Midwest, legislation that would prevent any future President from ever again imposing any embargo affecting food. That is how strongly we feel about this issue; no embargoes on food, short of declared war, and in that case the embargo would be automatic. Conceivably, we would send them all the bullets they wanted for free.

Similarly, the Minnesota Agri-Growth Council urges the Congress and the President to change the current manner in which the U.S. Department of State is permitted total domination in calling the shots for this country in international bargaining. It is time to insist that the Department of Agriculture, and particularly the Secretary of Agriculture, is given a major policymaking role in all diplomatic matters that in any way concern food.

As we sit here today, the Department of State has control over the very life and death of American agriculture. Based on their past reliance on embargoes, it is reasonable to assume that they remain totally blind to the fact that any future agricultural embargo would totally cripple our economy for years to come.

This Nation, to avoid serious domestic economic injury to itself, must consider other diplomatic measures as a more effective alternative to the crippling effects of an embargo. The U.S.S.R. would understand the gravity of their actions far more readily if the United States used diplomatic alternatives.

For instance, though we all share a desire for a limitation on arms of destruction, it may be far more effective to terminate such talks with the Russians than it is to keep imposing agricultural sales embargoes.

Another embargo will destroy the final shreds of credibility that America has as a dependable supplier of food. This, coupled with an across-the-board embargo, could invite a $100 billion deficit in this Nation's vital balance of trade.

If there should ever be another embargo, Americans, especially those Americans whose lives are tied to the soil and agriculture, will mark the date of that embargo in their memory much as they now remember other dates of great disasters to this Nation—dates like Black Monday, October 29, 1929.

However, I am an optimist. I am often accused of being too optimistic, but I am optimistic about this great Nation and the ability of its leaders to recognize the inevitable disasters that an embargo would bring to this country. I believe that creative and effective diplomacy, a revitalized Department of Agriculture, and free trade will create the incentives necessary for a prosperous American agricultural economy.

From the steelworkers walking the streets of the iron range communities of our State of Minnesota, to the hundreds of thousands of unemployed auto workers in Michigan and Ohio, there are almost 10 million people out of work in this country today.

Americans are holding off their purchases of everything from automobiles and farm implements to toasters and freezers. With this in mind, if this Nation were to impose a grain embargo, the fragile string that is holding the car dealer, the banker, and the other merchants of Main Street barely above water would be broken.

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If we permit an embargo to be imposed and break this economic string, unemployment will skyrocket, consumer purchases will decline even further, and the entire economy of this Nation will go plunging into a sea of indelible red ink.

I thank you for the opportunity.

Senator BOSCHWITZ. I gather that you oppose embargoes. [Laughter.]

Mr. SCHWANDT. I sure do. Senator, if I may add, the question was raised by Senator Dole and others of what we can do. I, for one, would like to see the President of the United States, whom I support and whom I greatly admire, stand up as he did on the taxation issue and remove food from any discussion of sanctions, and say that he will not preside as President of a Nation of plenty in the face of starvation and need around the world. Let us end the conversation on embargoes for at least the next 3 years.

Senator BOSCHWITZ. You said in your statement that you appear today as president of the Minnesota Agri-Growth Council and that it brings together all aspects of agriculture, and that Agri-Growth has voiced one opinion, and one opinion only, on agricultural embargoes; that you were irrevocably and unalterably opposed to them.

Unfortunately, as you recall, the agricultural community does not in this matter, as in most other matters, act with a single voice. After the imposition of the last embargo, that embargo was for a time endorsed by the Farm Bureau Federation. I am not sure that the National Farmers Union ever lifted their endorsement of that embargo.

One of the problems that I will note in the final statement is that the agricultural community does not hang together quite as well as it could on this issue, as on most other issues.

I might say that I believe that the Secretary of Agriculture does very much get involved in the formulation of policy. Certainly, it is sometimes overridden. So, I am not sure the Department of State, with whom we have also talked and whom we have invited to this hearing to testify—the Department of State, I do not believe, has total domination in those areas, though it certainly would seem so on the basis of some of its past activities, or at least results.

So, we thank you very much for coming, and we hope you will stay around a little bit.

Mr. SCHWANDT. Can I say one word?

Senator BOSCHWITZ. Sure.

Mr. SCHWANDT. No. 1, there was a philosophical type of support for the embargo without full realization of the impact.

Senator BOSCHWITZ. They had plenty of time to learn, though.

Mr. SCHWANDT. I would say in Minnesota, we are unanimous in opposing it in agriculture.

Senator BOSCHWITZ. I understand. They had time to learn in 1973, 1974, and 1975, and they certainly saw the evolution of new sources of supply, as was pointed out by our friend from the Soybean Association, and also as pointed out by other witnesses this morning.

But I agree that initially they felt it was patriotic and philosophically correct to agree with the embargo.

As our final witness this morning, we welcome John Finlayson, the chairman of the international trade committee of the National Grain and Feed Association.

We thank you, John, for your patience. Your testimony is not terribly long; we look forward to hearing it. Thank you for being patient with us this morning.

STATEMENT OF JOHN FINLAYSON, CHAIRMAN, INTERNATIONAL TRADE COMMITTEE, NATIONAL GRAIN AND FEED ASSOCIATION, AND DIRECTOR, NORTH AMERICAN EXPORT GRAIN ASSOCIATION

Mr. FINLAYSON. Thank you, Mr. Chairman.

Can everyone hear this?

Senator BOSCHWITZ. Sure; speak right into it.

Mr. FINLAYSON. I am John Finlayson. I represent both the National Grain and Feed Association, of whose international trade committee I am the chairman, and the North American Export Grain Association, of which I am a director.[1]

Senator BOSCHWITZ. Are you located down here in Washington?

Mr. FINLAYSON. No, sir. I am chairman of Louis Dreyfus Corp., who are grain exporters.

I would also like to echo my thanks to you, Mr. Chairman, and to the committee for giving us the opportunity to appear here and share some of our thoughts on this issue that so darkly pervades every aspect of agribusiness.

The points that I would have made on many of the elements of the issue that we are talking about today have been made before by many other witnesses and I will not recount those. Dr. Schuh and Dr. Cook have made them very articulately, very eloquently, and probably better than I can.

I would mention in passing that several witnesses have cited the case of Mexico because it is recent, it is dramatic, and it illustrates so well the very pervading fear that those of us in this industry have of the nondirectional nature of grain embargoes.

Invariably, embargoes are targeted at one country and at one buyer; almost invariably, they affect all buyers. In my written statement, there is a section quoting an extensive editorial on the embargo effect on Mexico which I would commend to you, and it contains some details I think you will find interesting.

Senator BOSCHWITZ. I will read the entirety of your testimony, and if you want to send me some more stuff, it would surely be appreciated.

Mr. FINLAYSON. I would like to use my time today to give a brief background and then review some specific recommendations that we have. They fall short of the solutions that some have proposed; not that I argue with those, but I think there are some things we can do immediately that will have an immediate effect, and yet lie more in the realm of possibility—the politics of the possible, if I may.

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[1] See p. 108 for the prepared statement of Mr. Finlayson.

There is a little background I would like to go through before I get to the recommendations because it lays the groundwork for them.

Senator BOSCHWITZ. Where are you?

Mr. FINLAYSON. In my statement, I am going to start on page 6.

Senator BOSCHWITZ. OK.

Mr. FINLAYSON. There is an element at work today of which our farm community is well aware, but the public at large, and indeed the administration, seems less conscious of. Almost since the lifting in April 1981 of the previous embargo, our administration has persistently suggested that, regrettably, a new embargo might have to be imposed under some circumstances.

The continually renewed threats, though not intended to, have had the effect of substantially depressing U.S. grain prices. Those prices were and are already under great pressure from natural economic forces—large crops and carryover supplies here and good crops abroad, depressed demand, high interest rate levels, and a stronger U.S. dollar, to name a few.

Our depressed grain markets have perceived these threats as very real. Presumably, the U.S.S.R. buyers have also viewed them the same way, considering that grain prices that we are offering today are very low and that the U.S.S.R. has not had a good crop this year.

To the best of my knowledge, the last Soviet purchases of U.S. corn and wheat were several months ago. The net effect of all this—a U.S. offer of additional grain with no assurance that it will not be cut across, and recurrent threats that it might be cut across—has meant that if eventually there is no embargo, the American farmer has suffered a good part of what he would endure if there had been one.

Senator BOSCHWITZ. May I interrupt you? Rather than coming back, let me ask you some questions as you go along.

For the last how many months, did you say, there have been no purchases?

Mr. FINLAYSON. Several months. I may be off a week or so, but I believe the last corn or wheat purchase by the Soviets was some 7, 8 weeks ago.

Senator BOSCHWITZ. Under this contract, the Soviets hope to buy a total of 23 million tons, I believe.

Mr. FINLAYSON. Yes, sir; and I would like to get into that in detail in a moment.

Senator BOSCHWITZ. OK, fine.

Also, you said the grain prices we were offering were very low and the U.S.S.R. has not had a good crop this year. Are you saying that the effect of the threat of an embargo or that the embargoes themselves are perhaps even aiding the Russians; that they have a bad crop, and the threat of embargo is bringing down worldwide prices, and we are probably putting some money in their pocket?

Mr. FINLAYSON. No, the opposite. I am suggesting that there is no rationally economic reason why they would not be buying heavily in the United States. They are offered cheap prices in a relative sense.

Senator BOSCHWITZ. Yes.

Mr. FINLAYSON. They have permission from the United States to buy twice as much as they have bought, and we have to wonder why they have not bought more. They have had a poor crop.

Senator BOSCHWITZ. So, the American prices are reflective of the world prices.

Mr. FINLAYSON. Yes, sir; they are.

Senator BOSCHWITZ. So, could one fairly say that the Russians, through the threats of embargoes or perhaps even the impositions of embargoes, have been able to buy their needs at lower prices?

Mr. FINLAYSON. It is hard to answer whether they have been able to buy them at lower prices. Certainly, they have been able to buy them at as low a price. Prices in the United States and prices in the world market—that is, the prices of grain in Thailand, in Argentina, in Brazil—for the various crops seek their own levels. It is a community market.

From time to time, prices on any given day or any given period may be dominated by the supplies and the offerings of one particular country. We can say that they are setting the price now; they are the lowest price at the moment. Other countries will lower their prices to meet those levels.

What I started out to say was here we have a situation where the U.S.S.R. could buy some 23 million tons; they have bought about 11. They have had a poor crop. Why have they not bought more?

Senator BOSCHWITZ. I am interrupting you again, and please do not let me interrupt your train of thought.

They have bought 11 million tons since last August, is that correct?

Mr. FINLAYSON. They have bought 11 since last August, yes. They bought about a million tons prior to October 1 under a rather informal agreement. Then, since October 1, under part of a more formal agreement, they have bought more.

Senator BOSCHWITZ. But they have stopped buying, so that they bought a lot in a relatively short time and then stopped buying, is that correct?

Mr. FINLAYSON. This is very much a personal opinion, but I would not call 11 million tons under the present circumstances having bought a lot. They have bought a fair quantity.

Senator BOSCHWITZ. For the period of time, 11 million tons was more than usual. Is that right?

Mr. FINLAYSON. Well, it would not have been more than usual comparing it to the period in 1980 when, just prior to the embargo, they bought 25 million tons. In 1972, in the first initial large purchase from the United States, they bought, if my memory is correct, around 15.5 million tons. But there have been years, to be sure, where they have bought as little as 6 million tons in the early 1970's.

Senator BOSCHWITZ. Pardon me for interrupting.

Mr. FINLAYSON. No, sir.

The net effect of all of this—a U.S. offer of additional grain with no assurance it will not be cut across, and recurrent threats that it might be cut across—has meant that even if eventually there is no embargo, the American farmer has suffered a good part of what he would have endured if there had been an embargo. The costs of a constantly threatened embargo come close to the costs of a real one.

Now, the current contractual status between the United States and Russia is subject to a lot of confusion, and I would like to clarify one point.

The United States, last fall, extended for 1 year a previously written agreement which has various provisions, but the pertinent one here is it permitted the Russians to buy up to 8 million tons. It contained a clause saying that those contracts for that 8 million tons—and this is corn and wheat—those contracts would not be cut across for political purposes.

Subsequent to that, the United States made an additional offer of 15 million tons over and above the 8, and that is the familiar 23 million tons we hear about now. But it is very important to notice that of that additional 15 million tons, there is no supply assurance.

Specifically, the industry urged our Government when they were making the offer of the additional quantity to extend the same supply assurances to the Russians. They did not. To the extent that the U.S.S.R. buys a quantity over and above the eight, they are in a territory I will characterize as being "cut across" territory.

They have gone into it to the extent of about 3 million tons, but for 2 months now they have gone no further, and it has been a period when we have seen an increasing repetition of threats of these potential embargoes under some circumstances.

We have had a double effect, I am arguing. We have seen markets depressed for two reasons. One, they see a slowdown in Russian buying and they do not believe, in my opinion, that the Russians could be expected to buy the 23 million tons, given the risks they undertake in getting further and further into that 15-million-ton unprotected portion.

Second, they have to accept the fact that the United States is in a position where it could, as it has in the past, cut across 3 million tons of it tomorrow, and that 3 million tons would be dumped back on the market immediately, as happened in January 1980. Those are the initial fears.

Senator Boschwitz. The 3 million tons are not shipped yet?

Mr. Finlayson. Not shipped yet, yes. The shipments, out of the total 11 million tons, range by this time between 5 and 5.5 million tons, or thereabouts.

I would like to deal with the problem now of the de facto, unannounced embargo that we have today, and add an incentive to see if we cannot get the U.S.S.R. to buy some more of the 23 million tons, and hopefully all of it.

Uncertainty demoralizes markets and it paralyzes trade. To the extent that we can remove or lessen that uncertainty, we will bolster markets. One step we urge be taken immediately is for the administration to publicly affirm that in the event of the imposition of a new embargo for foreign policy purposes, any existing sales contracts made within the present USDA limits would not be cut across.

In other words, we could confer upon that 15 million tons the same assurance contained in the first 8 million tons. And I have to add a footnote. Up to this point, we have been talking about corn and wheat. There are additional grains—soybeans, soybean meal, soybean oil, sorghum, rye, barley, mixed animal feed, flour—of which the United States has sold the Soviet Union a small quantity of soybeans, but could sell them these other grains.

That same assurance should be extended to any existing contracts that we could induce our buyers to make on those grains.

As you may be getting the impression at this point, we have rather a hodge-podge of arrangements of the sanctity of whatever particular contracts we are talking about. If someone comes to me and says, "I have just sold some grain to the Russians. Do I have the assurance that it will be shipped," I really have to sit down and say, "Well, let us see. What kind of grain is it? For what position did you sell it? Is it likely to be the 8 million and first ton to be shipped?" If it is, presumably it is in jeopardy. It is a rather irrational hodge-podge.

If we would extend the assurance against those contracts being cut across in the event of a new embargo, we would still leave the United States the ability to invoke an embargo for policy reasons. But since that embargo would only prohibit additional new sales, it would offer considerable benefits over what we have now.

First, the markets' fear of the type of chaos initially threatened by the January 1980 embargo—the fear of large quantities of grain, grain contracts, transportation commitments and the like being forced back on the market suddenly—could be eliminated. The present price-depressing effect of that fear would be greatly lessened.

All the world's grain buyers would be encouraged that once they had U.S. grain purchased, with U.S. approval, they at least could rely on it being shipped. We would regain at least some measure of reliability as a dependable supplier.

There is reason to believe that with that assurance, the U.S.S.R. and other Eastern bloc nations might be encouraged to buy some of the additional quantities of grain the United States is currently offering. I need not tell you how welcome that business would be to our farmers today.

The prospective cost to the taxpayer of dealing with the aftermath of embargoes that cut across contracts and devastate markets would be very substantially reduced.

Now, I should be clear that even if my recommendations were implemented immediately and the United States would give assurance that any contract entered into within the allowable quantities was protected and then announced an embargo, that embargo still would have many of the same ill effects we all talk about.

It would depress prices anew. It would threaten our long-term reliability as a supplier with all of the ill effects we have spoken. But it would remove a major element of immediate chaos in the market, and it would, I believe, encourage some immediate purchases from the Soviet Union. Now, one individual predicting what another sovereign nation is going to do is not easy.

Senator **Boschwitz**. May I interrupt?

Mr. **Finlayson**. Yes, sir.

Senator **Boschwitz**. Let me ask you a question—really, two questions.

First of all, is it within your perception and also within the politics of reality that this is something that could be achieved politically? That is question No. 1. Question No. 2: What about the longshoremen?

Mr. **Finlayson**. I would think it is the most doable thing we can suggest now because all it does is extend a guarantee which the United States has already made. It takes the 8-million-ton guarantee and extends it onward in corn and wheat and spreads it out to the other grains.

In the 1980–81 embargo, we went ahead and shipped grain to the Russians.

Senator **Boschwitz**. At one point, the ILA shut you off, did they not?

Mr. **Finlayson**. They did for a while. My current impression is—I sure hate to be the person predicting what Russia is going to do and what the ILA is going to do. [Laughter.]

There are several contractual cases pending before the courts—the Supreme Court in one case—on the ILA interruptions. My impression is that there might be temporary interruptions. I do not believe that the union would knowingly or persistently go against the policy of the United States. They really have not had a history of that. They have had relatively short periods where they have expressed political views, but basically those have been resolved so that they did not cause any major problems.

Senator **Boschwitz**. So, that would not dampen the buyers from purchasing the excess? If an embargo were to be imposed, they would not say, "Well, this is not unprotected?"

Mr. **Finlayson**. I suppose the most effective way to answer that question is, if the buyers came to us and said, "All right, we have now gotten a new assurance. Will you sell it to us," we would not hesitate to load up our pipelines and our facilities, irrespective of the potential threat of longshoremen intervention. I do not think they are a major threat.

Just a last comment: the action that I am proposing, that the U.S. unequivocally renounce cutting across any existing contracts, is one that should be taken without delay. It is a modest step. It would not alter the administration's ability to act in the conduct of foreign policy. It will not limit their ability to declare new embargoes, if they are so disposed.

Although it is a limited step, we believe it will have substantial advantages to the United States in dealing with the crippling effects of grain embargoes, whether threatened or real.

One last comment: I think it is certainly by far more doable than to persuade the administration that they should forever and ever renounce all grain embargoes. I will conclude my remarks.

Senator **Boschwitz**. Thank you very much. We kind of got most of the questions out of the way as we went along. I will read your testimony in its entirety, and I will also probably make some kind of a statement before the Republican caucus, which is trying to get at some of my colleagues on the other side, on the events of this morning.

We have held these hearings for the purpose of trying to head off as much as possible and state some of the economic impacts of embargoes upon ourselves, and the ineffectiveness of those embargoes related to the stated objectives that are given when they were imposed. So, hopefully, we have made some progress with respect to creating a greater understanding of embargoes.

One of our witnesses wisely pointed out that the State Department is also a concerned player, and we have talked to them, and talked to the unions and asked them to be here; we have invited them to participate as witnesses. Perhaps they will, and they have indicated an interest in doing so in further hearings that we will have with respect to Japanese barriers toward our trade. And perhaps we will get their feelings on embargoes as well at that time.

But even Professor Paarlberg, who noted that the 1980 embargo was complicated or perhaps even exceeded in its impact by various other economic factors, was in agreement this morning that this unimposed embargo is having some very deleterious effects on the marketplace.

Hopefully, through these hearings and through subsequent conversations that I and others have with not only the Department of Agriculture, but also the Department of State, we will be able to impact their thinking on embargoes.

I have had conversations with them. I have had their assurance that there is no embargo in the works at the moment, and perhaps they feel one is not necessary. You have stated, Mr. Finlayson, that there is an effective embargo.

The impact of embargoes with respect to production of food in new communities and new countries throughout the world is something that I will also make very clear to them. Our markets, in the long run, are put in jeopardy by these actions. This is something that will do inestimable harm to our economy, not only in the upper Middle West and the Middle West, but certainly throughout the whole country, when you consider the scope of agricultural exports and the enormous contribution they make toward bringing down the scope of the trade deficit that we have in this country.

We export fully two-thirds of our wheat, 55 percent of our soybeans, 80 percent of the sunflowers, and one-third of the corn that we produce in this entire country. It is an important thing that we continue to allow the agricultural segment to grow, because, as was also pointed out, this is one of the few areas in this country where we have a genuine advantage in world markets.

So, I appreciate all the witnesses who have come and spoken. I will see that their cause is not only reflected in the six or eight Senators we had here this morning, but that the message is spread a little further.

We will continue this hearing on Friday at 9 a.m., when the Secretary of Agriculture will come. I will put together my thoughts and summarize the impact of this hearing and express them to the Secretary before he begins.

So, we thank you for coming and thank you for attending.

[Whereupon, at 1:11 p.m., the subcommittee recessed, to reconvene Friday, February 5, 1982, at 9 a.m. in room 322, Russell Senate Office Building.]

ECONOMIC IMPACT OF AGRICULTURAL EMBARGOES

FRIDAY, FEBRUARY 5, 1982

U.S. Senate,
Subcommittee on Foreign Agricultural Policy,
Committee on Agriculture, Nutrition, and Forestry,
Washington, D.C.

The subcommittee met, pursuant to notice, at 9:19 a.m., in room 324, Russell Senate Office Building, Hon. Rudy Boschwitz (chairman of the subcommittee) presiding.

Present: Senators Boschwitz, Jepsen, Dixon, and Zorinsky.

STATEMENT OF HON. RUDY BOSCHWITZ, A U.S. SENATOR FROM MINNESOTA

Senator Boschwitz. We are pleased to welcome the Secretary of Agriculture, John Block, here this morning. We welcome you, Mr. Secretary, to speak on this very important subject of embargoes that seems to come into play so often in various forms in the past decade. We are looking into what impact they have had on the rural community and on our entire economy, because certainly, it goes just beyond the farmer, and it goes throughout the entire economy.

We, as you know, passed the farm bill, which is somewhat of a reissue of the 1977 farm bill. Among the things the administration didn't want was target prices, and among the things that this committee put in was target prices. Our thinking was that if embargoes are imposed and if markets go down, that target prices would cause deficiency payments, would cause an expense to the Government, and would give the Government, perhaps, a second thought before imposing an embargo. We wanted to get, perhaps, higher loan rates which, in this kind of urban-oriented Congress, is probably impossible. So are high target prices probably impossible, and perhaps that is OK. Perhaps the free market should be the thing that supports the system of agriculture.

So in the end, what has been done by the administration, and perhaps the only other option, is the set-aside program that you announced recently. That is somewhat in contravention to what the Government has been telling farmers in years before you arrived; that is to plant fencepost to fencepost. Just after they got wound up and planted from fencepost to fencepost, along comes an embargo which undermines the market.

We are going to look today, as we looked 2 days ago, into the impact on the marketplace, on the farmer, on the economy as a whole, of these embargoes, and we look forward to hearing your testimony with respect to the impact, and I hope you will have an opportunity to stay for a while and answer some questions. I expect we may have some more Senators coming through.

As you know, we put a rather stringent provision into the 1981 farm bill with respect to selective agriculture embargoes. Those are the only kinds of embargoes that have taken place in former years, where grains were selectively embargoed. Senator Jepsen and I were principally responsible, together with the cooperation, certainly, of Senators Zorinsky and Dixon, in getting rather heavy penalties imposed on the Government if these selective embargoes were enacted again.

As we see the existing situation we have, at the moment, everything in a sense embargoed, or prevented from shipment, certainly. We at least find ourselves allied with some interesting people who are approaching the Government and thereby supporting agriculture—people like International Harvester, Control Data, and Caterpillar. Those are nice allies for the farmer to have in the Halls of Congress because, very frankly, the farming community is often separated within itself, which is a great mistake, in my judgment, preventing them from getting the attention and perhaps the kind of help they need in the Congress.

Because of that lack of unity, we have had these embargoes. Hopefully, these times may at least bring some unity among the farm organizations so that they can talk with a unified voice that will be more effective.

In any case, Mr. Secretary, we welcome you this morning. We look forward to your testimony, and before we proceed, I would like to ask if my ranking minority member on this subcommittee, Senator Dixon of Illinois, has any comments.

STATEMENT OF HON. ALAN J. DIXON, A U.S. SENATOR FROM ILLINOIS

Senator Dɪxᴏɴ. Mr. Chairman, I am delighted to welcome to the Agriculture Committee once again the distinguished Secretary of Agriculture, a leading citizen of our great State of Illinois, Jack Block, who has been a powerful spokesman for the farmer in this administration. We are delighted to have him here this morning and listen to his testimony. I am sure there will be questions after the completion of his testimony.

Welcome to the committee.

Secretary Bʟᴏᴄᴋ. Thank you.

Senator Bᴏsᴄʜᴡɪᴛᴢ. I think that Illinois alone exports about 8 percent of the total exports of the U.S. corn. Certainly, a large percent comes from the State of Iowa, as well, and no Senator has taken a greater interest and a more passionate interest in embargoes than the Senator from Iowa, and I wonder if you have any comments.

STATEMENT OF HON. ROGER W. JEPSEN, A U.S. SENATOR FROM IOWA

Senator Jᴇᴘsᴇɴ. Thank you, Mr. Chairman.

I, too, would like to add my welcome to Secretary Block. As is so typical of farming and agricultural communities, where both the lifestyle and the commitment is a total one of a whole family, I appreciate, Mr. Secretary, that your wife, Sue, is also in attendance. It is very symbolic and good that we have a total family interest on this.

The farm community, as we know, is deeply troubled over the persistent reports of a possible embargo. I can attest to personal conversations within the last 3 weeks with Clayton Yeutter of the Chicago Mercantile Exchange that the psychology, even the mention of the word, "embargo"—whether given in its broadest sense or in its most selective sense with grain—immediately results in adverse market reactions, when long-term contracts that are market-making and by their own nature are sold off and immediately, trading stops. Recent actions by the administration—termination of farm exports and credit to Poland, the postponement of talks on new long-term grain agreements with the Soviets—have only fueled market uncertainty and have depressed prices.

The persistent talk about possible embargoes is only the more surprising to me in light of the President's actions last year in ending the Carter administration imposed grain sanctions that got the farmers in the mess that we are in today.

So I hope that during this hearing, Mr. Secretary, you will respond in a positive manner to these reports. I would hope, as I know you have done repeatedly, you will dispel them completely. I would hope that you will state for the public record that the administration has no plans involving the embargo of farm commodities. Bluntly, our already depressed markets, our already income- and cash-short farmers cannot stand too much more of this uncertainty. The Secretary has long been on record as opposed to embargoes. I would note that witnesses before this panel earlier this week repeatedly told of the disastrous impacts such embargoes have had on agriculture, and that their only noticeable impact has been to disrupt export channels, cause farmers to lose more of their share of the world grain markets, and damage our reputation as a reliable supplier. And I hope the Secretary will tell the American farmer, as well as his Cabinet colleagues and the administration, that we plan no embargoes. But short of that, I would hope, Mr. Secretary, that you would pick up the ball thrown earlier this week by John Finlayson of the National Grain and Feed Association that the United States unequivocally renounce cutting across any existing sales contracts in the event of an imposition of an embargo. That at least would eliminate the chaotic conditions caused by the Carter embargo when large quantities of grain were forced back into the market suddenly; the grain had been contracted for, had been under transportation commitment or under sales agreement. The American farmer just cannot afford another embargo, and he cannot afford to have grain already in the export channels dumped back on the markets.

I know that there have been a number of meetings within the administration in which embargoes have been discussed. I know that there are people outside, but yet close to the Government, who have been offering lots of support and, in fact, have been doing some arm-twisting for general sanctions and so on.

I would hope that today, Mr. Secretary, you will be able to explain and tell us your role in this embargo discussion process. I am delighted that you have been included, that you are part of those discussions, and I think that is a step in the right direction. In years past, I am not sure the USDA was always included when the State Department and the Commerce Department got together and discussed policies affecting farm economy. And that is a credit to you, that you are, in fact, always on deck and part of these discussions.

I believe I know what the answer will be, what your recommendations have been, but I would like to hear them, and I think it would be of interest to this group.

And finally, Mr. Secretary, it would be helpful to this panel for you to cite for the record what you told the White House on the ramifications of another embargo on the farm economy. I am sure that in these discussions, if you raised that point, you must have had some estimates on what the loss of income to the farmers would be.

For example, in your estimation, how much of a drop in prices would probably occur? You know, the last embargo cost at least $1 a bushel or more reduction in farm prices. A witness earlier this week told this subcommittee that another embargo would drop grain prices by another 50 cents a bushel. I would like to know if you feel that is on target.

Finally, Mr. Secretary—and later on in this meeting, I am looking forward to addressing this—I think the time has come for addressing the embargo issue head on and establishing a national policy. It is that important. If we are going to become a reliable supplier and therefore have some predictability for markets and at the same time enabling the farmers to do some financial planning, which they must do, we have to have some national policy or plan and that will expand from a selective embargo to including farm products and grain or food as a weapon or as a tool of implementing foreign policy in a broad spectrum across the board of sanctions.

Now, none of us—and Senator Boschwitz has emphasized this, all of my colleagues have emphasized this—none of us want to preempt or even attempt to in any way hinder the administration's ability to conduct foreign policy, certainly in the event of emergencies, or in the event of total diplomatic—termination of diplomatic relations. We don't mean that. And as you know—being part of the farm community and a West Point graduate—the farmers are equally as patriotic as any other segment of our society. They will do their share. But we cannot continue, I think, to exist any longer in the agricultural economy with anything less than a national policy—short of all-out mobilization—of a national policy that states one way or another—and I have my druthers of which way it would be—but states one way or another just whether we are going to have embargoes or not in the agricultural community. And if we are, then we have to have some national policy on how we handle it. The farmers cannot continue to exist economically with the psychology of the disastrous economic effects that embargoes have.

Thank you, Mr. Chairman.

Senator BOSCHWITZ. Senator Zorinsky, do you have comments or an opening statement?

STATEMENT OF HON. EDWARD ZORINSKY, A U.S. SENATOR FROM NEBRASKA

Senator ZORINSKY. Thank you, Mr. Chairman.

I wish to welcome Secretary Block to this hearing. I think it is vitally important. I think it is extremely important that the farmers of our country be made aware that there is a compassion, a concern, and beyond that, a policy being evolved with respect to how we approach embargoes in the future. It is no secret that the word, "embargo," by itself has a tremendous impact on depression of prices within the grain industry. But beyond that, Mr. Secretary, first I would like to point out that past embargoes or any embargoes have never proven that they can work, and that is because this country, the United States of America, can no longer singularly control that commodity. If we were the only country in the world producing this commodity, obviously we could make it work. But with the kind of friends that we have had in the past participating with us in support of embargoes, we do not need any enemies helping us. Past actions have proven that embargoes do not accomplish what they set out to do.

Secondly, the American farmer is being told and denied export sales to other countries. And, to get a personal perspective, as a member of Foreign Relations Committee, I visited the Argentine Embassy during the last embargo. The Argentine Ambassador came up to me said, "Mr. Senator, I want to apologize, but you are going to hear about this anyhow," and I would say, "What is that?" and he would say, "We have just purchased back all the grain we sold to Italy and paid them a $10 per metric ton profit and turned around and resold it to the Soviet Union at an even higher price." This is all, of course, being done, this profit-sharing, at the expense of the American farmer. Further, at the same time, the United States was the biggest customer and importer of casein from the Soviet Union, we were telling our farmers they could not ship grain to the Soviet Union.

Across-the-board embargoes, I think, are additionally detrimental to agriculture inasmuch as that industry singularly would carry the greater burden of across-the-board embargoes than would any other industry. Obviously, Mr. Secretary, it is like preaching to the choir, talking to you about helping us end embargoes. I think it is up to you to carry this message back to the administration and to your colleagues in the Cabinet. After John Block is gone and after Ed Zorinsky is gone, the Office of Management and Budget and the Secretary of State will continue to usurp the authorities that are delegated to you as Secretary of Agriculture or any future Secretary of Agriculture. It is no secret that the first signal, the first sign anybody wants to send to another country in connection with disagreement over foreign policy is withholding agricultural commodities from them. We ought to learn something from history, and that is that it will not work. A farmer cannot go out and fine-tune every third row of crops and tell it to stop growing, whereas other industries can go to a 4-day workweek, a 3-day workweek, lay off workers; a farmer does not have the luxury of fine-tuning production to that extent.

So, Mr. Secretary, with a great deal of respect, we welcome you to this hearing today. I guess we are saying that the word "embargo" continues to depress prices, and I would hope today's event will not contribute to that. However, in my estimation, any future embargo certainly would.

Thank you.

Senator **Boschwitz**. Thank you, Senator Zorinsky, and Senator Zorinsky brings out the important element of whether or not, quite aside from the impact that it has on the American farmer or the American rural community, what impact an embargo has on the country that is embargoed. I would hope that you would cover that in your testimony, as well.

Mr. Secretary, we welcome you.

STATEMENT OF HON. JOHN R. BLOCK, SECRETARY, U.S. DEPARTMENT OF AGRICULTURE

Secretary **Block**. Thank you very much, Mr. Chairman.

At the outset, I want to say that it is a privilege for me to appear before this committee today, and I appreciate the aggressive approach the committee members have had regarding this issue and the deep concern that you have expressed, because the concern that you have is a concern of mine, a concern of the American farmer, and a concern of the kind of cost that an economy of this country can pay, in the case of an ill-advised embargo.

I am going to stay fairly close to the script this morning, and of course, when I am done, I will be prepared to answer whatever questions you might have, if that is all right with you.

The question of agricultural trade embargoes has been a divisive and difficult issue in this country for almost a decade. We welcome the opportunity to discuss the subject and to dispel all uncertainties that may exist with respect to the U.S. attitude toward the use of sanctions involving agricultural trade.

Despite our Nation's historic commitment to free and expanding trade, various administrations have imposed export restrictions on farm products for either economic or political purposes. The general idea of "food as a weapon" has an understandable appeal in times of frustration and disappointment, which have so often characterized our international relations in the past 8 or 9 years.

American farmers have been victims of these policies, and in a real sense, this is a price they have paid for their own success. U.S. agriculture's well-known ability to produce efficiently and abundantly for consumers here and abroad has led nonfarm people to exaggerate our Nation's ability to affect the policies of other countries by controlling the export of food supplies. Examples are many of the articles you may have read lately or what you have heard people say. People think that we can really control what is happening with our food, but the facts are otherwise.

I would like at this time to examine agricultural trade sanctions and turn to costs and effects and review our experience of the past 2 years.

Agricultural trade sanctions have been employed by the United States a half dozen times over a period of 30 years and in each case, the total flow of agricultural imports into the target country was not appreciably reduced. In each case, requirements were met from other origins. The lesson was clear. The cooperation of other exporting countries cannot be maintained over an extended period. It will erode over time as other national priorities take precedence.

Among all of the commodities traded internationally, agricultural products are perhaps the most difficult to embargo—the most unlikely to be successfully denied to a nation having the means to buy somewhere else. Agriculture's resources are renewable and agricultural production is widespread. Agricultural commodities are fungible and therefore can be obtained from other origins or replaced with substitute commodities from other sources.

Even the largest exporter of agricultural products in the world cannot prevent this. The United States, with its tremendous resources and productive capacity, still produces only about 12 percent of the world's agricultural commodities. It grows only 20 percent of the world's grain. The remainder is produced by other countries that stand ready to replace the United States in any market we choose to abandon—both in the short and the long run.

It follows that if an agricultural embargo does not succeed in denying food products to the target country, it cannot effectively alter the behavior of that country, and that just makes good, commonsense. An agricultural embargo by the United States would have the effect of depressing farm prices in the short term and by closing off markets and stimulating competition in the longer term. It is costly to taxpayers and reduces the Nation's level of economic growth and efficiency.

Even a limited, short-term food products embargo can have serious effects on the trade growth of the embargoing nation. An example is the U.S. embargo on soybeans and other oilseed products in the summer of 1973, and you may well recall, it lasted only 5 days, just 5 days, yet it created a continuing doubt as to the U.S. reliability as a supplier, and it gave life to major new competitors for the world soybean market, particularly the growth of soybean production plants in Brazil.

And I still get questions about this as I go to Japan today, and I am sure, if you have traveled, they wonder about our reliability as a supplier, and we are the ones who caused that doubt, unfortunately.

Senator **Boschwitz**. Not to interrupt you, Mr. Secretary, but they invested in Brazil at that time.

Secretary **Block**. Absolutely. The Japanese spend great amounts of money and made a great amount of effort to diversify their supply because they could not necessarily count on us.

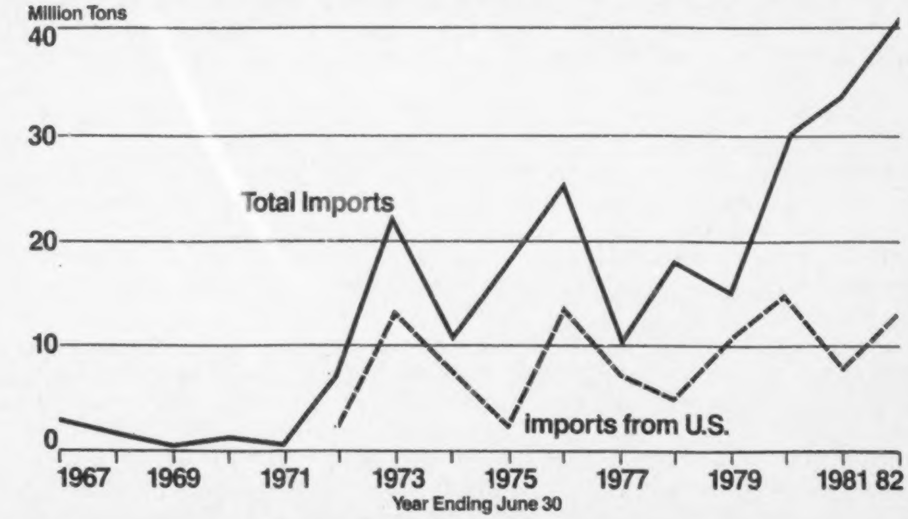
Before that embargo, U.S. soybean farmers had 85 percent of the world market for soybeans and soybean products. Today, our farmers have 72 percent of that market as a result of increased production by Brazil and Argentina. Producers of competing oilseeds in other countries benefited as well because of the doubt that was created concerning our dependability as a reliable supplier.

The 1980 embargo is a case study in failure. This action, technically a partial embargo because it did not deny to the Soviets the 8 million tons permitted annually under the long-term agreement and because some agricultural products were exempted, was intended to extract a significant price—and that is in quotes, too—

from the U.S.S.R. for its behavior in Afghanistan. It was expected to cause a major reduction in the availability of livestock and poultry feed in that country, result in distress slaughter of livestock and poultry that could not be fed, of course, supposedly, and lead to a significant reduction in Soviet meat production.

I would like to call to your attention to this chart. If you look at this chart, it is U.S.S.R. grain imports, total and U.S. share. Total imports, they were not importing a great deal here in 1971, this period of time. U.S. imports were keeping pace pretty steady. We had a major share of the market, as you can see right here; even in 1979, our share of this market was all of this part up to the green line. Other countries had this little bit of the market, here. And of course, the embargo was imposed right about in here, and you can see that the Soviets' total imports kept going up as their needs continued to expand. But you see what happened to us. We are just floating down here, not keeping pace. We lost this growth market; a huge and tremendous growth market was given away. And there is always someone there to come in and take it over, obviously.

USSR Grain Imports: Total and U.S. Share



These predicted results did not occur, as you see. The Soviets reacted by increasing grain imports from sources other than the United States, increasing the use of substitute feeds, and increasing the import of meats from other countries. With these actions and some drawdown in stocks, the U.S.S.R. succeeded in minimizing the effects of the embargo.

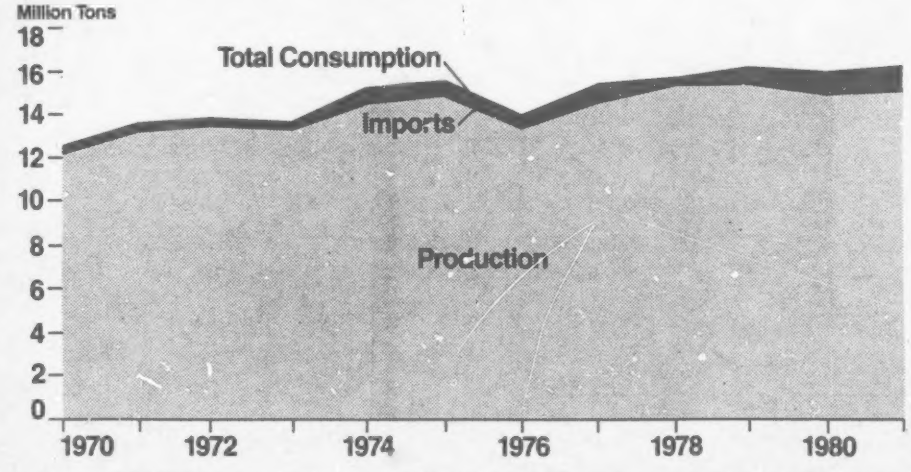
There was, however, a certain amount of inconvenience, which we all are aware of. They had to shop around the world for other sources for the same or substitute products, pay a little higher transportation rates, but they succeeded in minimizing the effects of the trade sanctions without excessive delay or cost. The premium prices paid by the U.S.S.R. in some instances were largely offset by lower world prices, and that is true, the prices plummeted after the embargo, so the world prices were lower, and consequently, they really had the advantage of buying in a lower world market.

U.S. efforts to prevent Soviet purchases from other sources were only partially successful in the early months of the embargo, and by early 1981, the cooperation of other exporting countries had eroded sharply. In the first part of 1980, the U.S.S.R. was able to replace about half of the 17 million metric tons which was denied them by the United States. During the latter part of the year, the Soviets had found alternative sources for essentially all the grain denied by the United States.

As a result, the U.S.S.R. was not forced to liquidate herds and flocks as some U.S. policymakers had predicted. After 1 year of the embargo, cattle and hog inventories on state and collective farms were virtually unchanged, and poultry inventories had increased slightly.

I remember when the administration was saying that the Soviets would have to slaughter this livestock, but they did not. This chart shows that clearly, that their consumption of meat and production—they did not lose any ground because of the embargo. They stayed right up here, with total consumption, production and imports. They increased their imports a little here for any difference they needed to make up, and they held their supplies and production of livestock and meat products without seeing any fall-off.

USSR Meat: Production, Imports, and Consumption



Meanwhile, the United States paid a heavy price. An immediate result of the embargo was a sharp decline in grain prices and U.S. farmers continue to suffer to a certain degree from these losses,

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and the market uncertainty that followed. This contributed to a decline in net income already under way largely because of inflation in producer costs and higher interest rates.

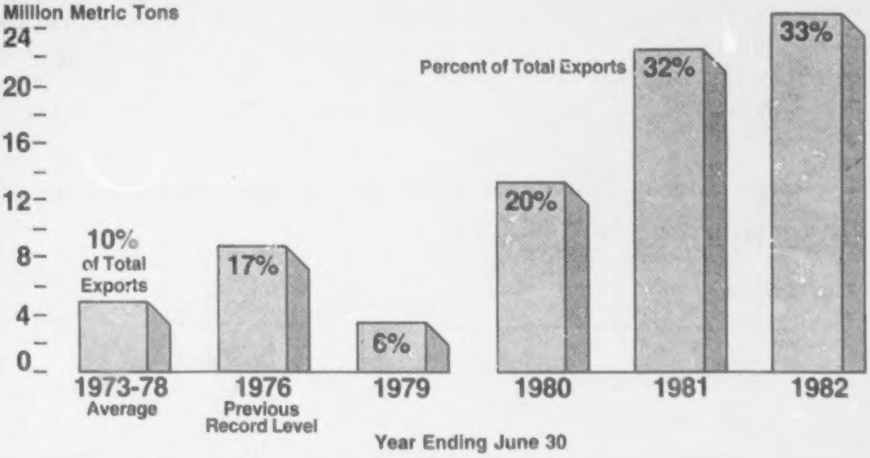
Despite the "partial" nature of the embargo, it had a devastating effect on U.S. exports to a market that had become important to U.S. farmers in a very few years. In 1970, agricultural exports to the Soviet Union amounted to about $16 million, and that would be shown on the original chart, the first one we saw. But in 1970, it was not much, $16 million. But by 1979, the market had grown to $3 billion, about one-tenth of the total export market for U.S. farm products.

This growth came to a sudden halt in January 1980. U.S. farm product exports to the U.S.S.R. fell to $1.2 billion that year. Since the lifting of the embargo last April, there has been only a moderate recovery in these exports. The projection for 1982 is for about $2 billion in farm product sales to the Soviets, compared with what we would project that we would have had at least $5 billion in sales had we not imposed the embargo in 1980.

The Soviet Union, forced to seek other suppliers in 1980, has continued to diversify its purchases, even with no embargo in place. The United States was the main supplier to that market in 1976 through 1979, but now we are playing the role of residual supplier.

For example, in 1978-79 the year before the embargo, about 10 percent of Argentina's total grain exports were sold to the U.S.S.R., whereas in 1981-82, its share is expected to be 65 percent. For Canada, 10 percent of its grain exports went to the U.S.S.R. in 1978-79, while in 1981-82, its share will be 35 percent. Australia's share went from almost nothing in 1978-79 to over 15 percent of that country's grain exports in 1981-82. I would like to show you this on a chart that we have.

Competitor Grain Exports to the Soviet Union Before, During and After the Grain Embargo



This is the total competitor grain exports to the Soviet Union, before, during, and after the embargo. This is all of our competitors here, not us, but our competitors. As you can see, here is the 5-year average of the share of the competitors exports that went to the U.S.S.R.; in 1976, they sent 17 percent to the Soviets. In 1979, with our grain agreement with them, and with the aggressive marketing that had taken place in here, the U.S.S.R. bought only 6 percent of those countries' exports. Then, after the embargo was imposed, the other countries came in and filled in the void which we had left, and they came in in 1980, 1981, and 1982.

Senator BOSCHWITZ. Mr. Secretary, I do not understand those percentages figures. I understand the million metric tons that the other nations shipped the Russians. This is what we had left, the 33 percent?

Secretary BLOCK. Well, these are the competitor grain exports that went to the Soviet Union. And before the embargo, these other countries were only sending 6 percent of their exports to the Soviet Union—of their exports. In 1980, 20 percent; now, they are sending 32 and 33 percent of their exports to the Soviet Union.

Senator BOSCHWITZ. Fine. That does not mean that we are providing the Soviet Union the other two-thirds?

Secretary BLOCK. No, it is a percent of their exports.

Senator BOSCHWITZ. Of all their exports, a third was the percent sent to the Soviet Union?

Secretary BLOCK. Yes. Pardon me if that was not clear.

Let us break this down a little bit farther now, just to give a little clearer picture. Now, Argentina—and frankly, they were honest about it; they said they were not going to cooperate in the embargo, and so they did not—and you can see what happened to their exports: They have just skyrocketed. It simply proves that

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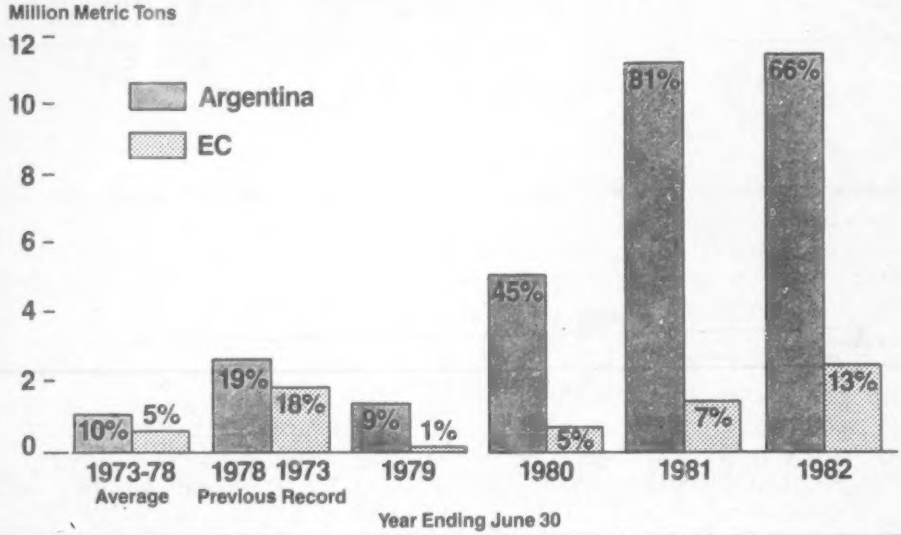
they can raise more and produce more if they want to. Like I said in the testimony, a year before the embargo, 10 percent of Argentina's total grain exports were sold to the U.S.S.R., and now it is up above 65 percent. And EC, practically nothing here, but we have seen a gradual increase, even though they were participating, too—the EC. Canada and Australia—you see Canada in the orange—we have seen a marked increase in their percent grain exports to the U.S.S.R. And Australia started without practically any exports at all, and they have come into the market and have found a place to sell quite a bit of product because of the void that we left there.

Grain Exports to USSR



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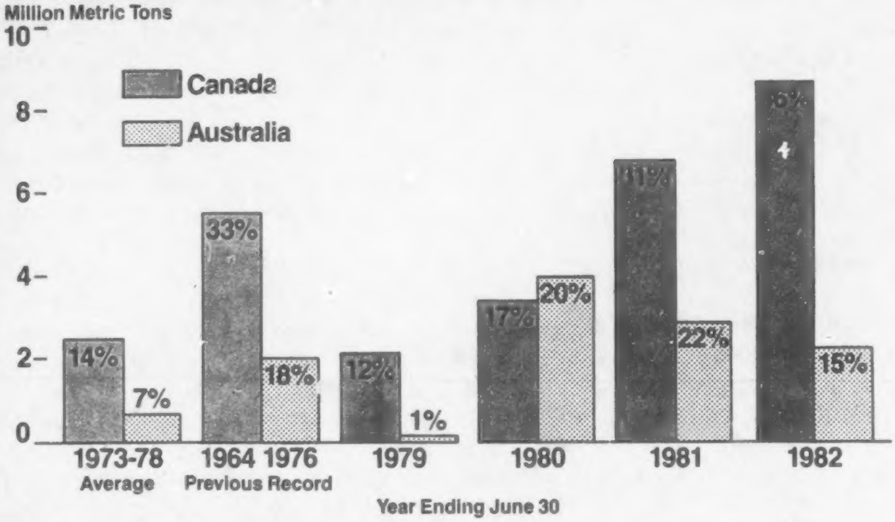
Grain Exports to USSR



Of course, following this, the Department acted to ease the losses to farmers by purchasing wheat and corn outright, by adjusting farmer-owned reserve programs. The Department increased release and call prices under the farmer-owned reserve. It opened the reserve for corn to farmers previously classified as ineligible, which damaged the credibility of that program. And I am going to say right here that it is not going to happen under my jurisdiction as Secretary of Agriculture; the farm program is going to stay as it is. But this hurt the credibility of the program, and it is just unfortunate it happened. The Government also waived the first year interest costs for grain entering the reserve and increased the annual Government storage payments for grain in reserve. It increased the loan prices for wheat and corn.

These Government actions resulted in increased outlays of just under $2 billion. The increases in stocks are still with us and complicate current supply conditions. Budget exposure from the loss of trade and consequent Government liability under the farm programs continues. And as you know, we still own corn purchased as a result of the 1980 grain embargo, and I do not know what to do with it, but I do not have anything I can do with it now with the prices that we see out there.

Even more significant are the enormous long-term costs—I think this summer we should not forget the long-term costs related to the growth and the competition abroad, and you have seen how the competition has grown, the loss of confidence by other buying countries, and an interruption in the long-term expansion of customer nations' reliance on imports from the United States. The latter is a vital market factor that the U.S. agricultural sector has worked many years to develop. These several elements will undoubtedly be

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more costly in the long term than the short-term costs that I have tried to enumerate.

Under the long-term agreement, the U.S. share of the Soviet wheat and coarse grain market rose from 55 percent in 1976–77 to 66 percent in 1977–78. When the embargo took effect, the U.S. share fell dramatically in 1 year, and it has not recovered. You can see that our share has never recovered here, and other people have taken up the slack.

As of now, the U.S.S.R. has ordered for delivery through September 1982 a total of 10.9 million tons of U.S. wheat and corn. Through January 1982, some 6.2 million tons of that grain have been shipped.

This means that a cutoff similar to the 1980 cutoff, in which the United States honored the agreed upon 8 million tons, would deny the Soviets less than 3 million tons of grain that they have ordered. An absolute and immediate cutoff of all shipments would deny the Soviets less than 5 million tons of U.S. grains.

Senator BOSCHWITZ. Pardon me but the contract says they can if they cross over.

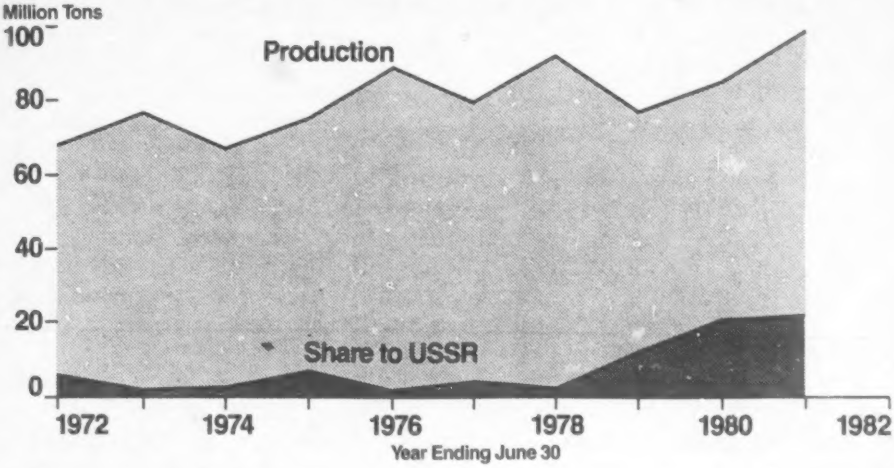
Secretary BLOCK. Yes. I am not saying they would. And in fact, I am not even saying they will not buy more grain, because I think they will buy more grain yet this year, the Soviet Union. But I am just pointing out an immediate cutoff of either kind would not hurt them that much. These are amounts that any number of suppliers could and would provide.

This year's world grain supply of 1.7 billion tons is almost 50 million tons larger than last year and 40 million tons larger than the year before. Ending stocks are forecast to increase by 30 million tons to a new record.

With grain stocks so abundant, any embargo of grain trading would bring into juxtaposition two opposing forces: First, any significant impact from an embargo would require far more cooperation now from other exporting countries than we could ever realistically expect to see. Second, most exporting countries are under heavy pressure to sell and thus would likely resist such a commitment.

The Soviets now have agreements with Argentina, Canada, Brazil, and Hungary, that assure close to 10 million tons of grain on a continuing basis. In addition, Argentina seems to have an informal agreement with the U.S.S.R. to supply up to 2 million tons of wheat a year. And we know from experience that both Argentina and Canada would like to supply the Soviets with grain supplies over and above the agreement levels.

Argentina, Canada, and Australia: Total Grain Production and Exports to the USSR



Even if other governments agreed to withhold exports to the Soviet Union, it is questionable that they would really be successful. This is because of the process of trans-shipment that can easily circumvent an embargo

New agricultural trade sanctions would be enormously costly to the U.S. farmers and taxpayers. American farmers would be hurt the worst. The Reagan administration has made it clear that any new sanctions would not discriminate against agriculture. I think the chairman pointed that out in his remarks, and it does help to have some other people on your side.

In any event, the application of broad sanctions would immediately impact U.S. agriculture, unless it were excluded. And at a time when it is already experiencing low prices because of sluggish export markets, large supplies, and to some extent, the continuing effects of the 1980 embargo. New sanctions would bring further downward pressure on grain prices. This would put further pressure on farmers' net income, already severely squeezed due to low prices and increased production costs including the high interest rates.

If new sanctions were to discriminate against agriculture, the new Agriculture and Food Act of 1981 requires large outlays to compensate farmers. If new sanctions did not discriminate, as the Reagan administration has repeatedly said, the Commodity Credit Corporation would still encounter an inevitable increase in farm program costs. Expanded programs of acreage production control, direct payments, commodity purchases, and storage incentives would all have to be considered very carefully.

In our dealings with other countries, whether friendly or not, our agriculture is a source of strength, not weakness. This is important. If we had not embargoed grains and other agricultural products to

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the U.S.S.R. in 1980, we would now be supplying the Soviet Union with 35 million tons of grain per year. This would have been a better foundation for resolving problems—international problems—than the situation we have now, in which the Soviets have in effect learned to get along without us. Much of our strength in foreign policy derives in part from the strength of our economy, and vigorous agricultural exports are a major contributor to this Nation's recovery and a stronger economy in the years ahead.

If you look at the chart, before the embargo, I think we probably had 70 percent of the market, about, of the Soviet Union, and now we have about 25 percent of the market. So, if we did not have much leverage then, we have practically none at all now.

Peaceful goals are served by agricultural trade and not by efforts to deny trade. Agricultural trade growth creates bonds and a mutual desire for stability and dependability between trading partners. An example is our trade with Japan, which imports 50 percent of its caloric needs and looks to the United States for 40 percent of those imports.

If the U.S.S.R. should become convinced in the next few years that it can rely on the United States as a supplier, it might well reach a situation within a decade where it is truly dependent on this country for its import needs. So long as food is not used again as an offensive weapon, it may become an increasingly effective instrument for improvement in East-West relations.

As we consider agricultural embargoes, we should keep three principles in mind.

No. 1, a truly effective unilateral agricultural sanction is a practical impossibility. A program sufficiently extreme to achieve a really persuasive impact on a target country would be a failure because of the extent of international coordination required, the high costs involved, and the likelihood of large-scale circumvention.

No. 2, an ineffective sanction is worse than nothing. A limited agricultural embargo, undertaken on grounds of principle, is of no value. The transparency and ineffectiveness of such a policy would become a source of international and domestic ridicule, as it was in 1980. At the same time, our Nation's reputation as a reliable supplier would be damaged.

No. 3, agricultural trade is beneficial to the United States. Past policy has too often been distorted by the notion that trade is aid—that agricultural exports are an act of charity to be granted or denied with impunity. That is not true. Agricultural exports are a vitally important part of our national economy. They are not aid; they are a source of strength to us in this country.

I can only bring to your attention that the European Community officials are going to be talking with us next week. We have some serious problems with them, because they are moving heavily into the export market, in competition with us, and that is fine, except that they are subsidizing their exports, and we do not think that is fair. The point I am really making is that exports are important to countries. Sometimes, they are worth it, even if you have to subsidize them to sell them. So we really feel that agricultural exports are of great importance to the United States.

So far, Mr. Chairman, I have outlined the reasons why agricultural trade embargoes are not effective, especially for agricultural commodities. While there are many reasons for this, the major ones are the lack of cooperation from other countries concerning a trade embargo and the fact that agricultural commodities are fungible and can be grown and shipped from anywhere in the world. Yellow corn is not color-coded; it can come from anyplace, and it does.

Unfortunately, there may be critical times in which a total trade embargo could be necessary, under certain conditions. Conditions may be such that a total trade embargo with a country or region is necessary, based on principle. It is hard and probably unwise to try to define all the specific conditions under which such an action would be warranted.

President Reagan has, on many occasions, expressed his dislike for farm product embargoes and has said that before anything like that would be considered, the circumstances would be dire. As the Secretary of Agriculture, I promise you that I will speak forcefully for agriculture in any discussion that involves a suspension of agricultural trade with any other nation.

Thank you, Mr. Chairman.

Senator BOSCHWITZ. Thank you very much, Mr. Secretary.

Very often, when we have administration witnesses at this or other committees, we are very aware that the administration likes to look at and have input and perhaps review testimony that is presented before a committee. Is it fair to say that this testimony, which has been a forceful statement with respect to embargoes and their effectiveness, has been reviewed by the administration?

Secretary BLOCK. Yes, sir, all of our testimony is reviewed, and this is no exception.

Senator BOSCHWITZ. This chart is very interesting, Mr. Secretary. It shows that at this point, we impose the embargo, and the imports by the Russians have continued to grow very rapidly, so that there was no real impediment; is that correct?

Secretary BLOCK. Yes.

Senator BOSCHWITZ. There is another interesting chart, the Argentine chart. The important question is the question Senator Zorinsky suggested about Italy. The Italians lost their contract or were bought out of their contract. The question is, who got that contract, and did the Argentines and the other suppliers simply give up the contracts, and we picked up those contracts. This is interesting, that 81 percent of the grain that the Argentines produce went to the Soviets—or 81 percent of their exports.

Secretary BLOCK. Yes, of their exports.

Senator BOSCHWITZ. So, their exports have risen. Now, 66 percent is a larger figure than 81 percent, so this would indicate that their production has also expanded.

Secretary BLOCK. They expanded their production tremendously.

Senator BOSCHWITZ. Let us discuss that for a moment.

Senator ZORINSKY. Why isn't the 81 percent higher than the 66 percent?

Senator BOSCHWITZ. They expanded their production, Senator.

Secretary BLOCK. This indicates the number of metric tons, about 10 million metric tons, that they are shipping. So even here, they are still shipping, both places are still shipping approximately 10 or 11 million metric tons, but they increased their production, so they are sending some more of this production someplace else. I do not know where it went, but it probably helped take some of the other markets away.

Senator ZORINSKY. So they had a larger capacity, then.

Secretary BLOCK. Yes. They plowed up a lot of their prairie soils and their grasslands, is what they have done.

Senator BOSCHWITZ. In other words, their production increases, and we have had a net loss in this country. The Argentines are now trying to perform not only on their new Russian contract, but on the Italian contract as well, and they have increased their production—which, is it fair to say, is a net loss to American agriculture?

Secretary BLOCK. Absolutely.

Senator BOSCHWITZ. Have you evidence that other countries have increased their production?

Secretary BLOCK. I do not have the figures here, but for one reason or another, we have seen increases in production. I think we could easily document that Canada has had some very good increases in production.

Senator BOSCHWITZ. Have you any evidences of modernization of the infrastructure of agriculture in some of these countries? Some of the things that prevented them from producing were their inability to ship, their inability to load it onto vessels, and their inferior transportation facilities. Have you an awareness, Mr. Secretary of increased activity in that regard?

Secretary BLOCK. Yes, and when an opportunity like this presents itself to a country, and then they make a national commitment to take advantage of it, you naturally see improvements in infrastructure, grain handling, transportation, sometimes different kinds of farm programs to encourage farmers to go in and take up this market.

Senator BOSCHWITZ. It was interesting to note the testimony that we had on Wednesday from Dr. Michael Cook that the fertilizer inputs that the Argentines use in their land is approximately 2 percent of all fertilizer input. In other words, if we put 1,000 pounds of fertilizer on certain amount of ground, the Argentines would put 20, and by increasing their fertilizer input, they could certainly increase their production very substantially, from their present total production of about 25 million tons gross to about 50 million tons.

What impact would that have on the American farmer as you see it, Mr. Secretary?

Secretary BLOCK. Well, it would be disastrous if we were to see that kind of increased production come on line, wherever it came from, because it would be difficult—the prices are low enough now.

Senator BOSCHWITZ. Then it is quite clear to you that other countries do have the capacity.

Secretary BLOCK. That is one thing I would like to comment on. I have been in a lot of other countries before I was Secretary and since I have been Secretary, and there is a great amount of land that is underutilized in this world. And if the right kinds of incentives are there for other countries to more effectively utilize it, they are going to do that, and it is going to make it tough on us to hold the markets we have and continue the expansion process that we have been involved in. So we should do everything we can to keep from causing someone to assume that they have a great new opportunity that they should jump into, because once we open that door, and *they get started*, then they just keep it going. It is something we pay for year in and year out.

Senator BOSCHWITZ. The export of farm products is an important part of agriculture. Could you just review briefly the major commodities, such as wheat, corn, soybeans, and what percentages of those crops are sent by our country into international trade?

Secretary BLOCK. Well, in the case of wheat, it is over half of our wheat crop, and in the case of corn, it is probably 30 or 40 percent. In the case of soybeans, it is 50 percent.

Senator BOSCHWITZ. So, these are important elements in our farm trade. I might just note for the record that we had a $26 billion trade surplus in 1981 in the field of agriculture, and without that trade surplus, our international accounts and the strength of our dollar would be very severely weakened.

Finally, before I turn it over to my colleague, one of the things that was stressed at our last hearing was that somewhere between 10 or 11 percent of all the grains produced in the world are shipped in international trade. That is the correct number, isn't it?

Secretary BLOCK. That is about right, yes. That is true.

Senator BOSCHWITZ. Therefore, there is considerable flexibility and ability to move around 1 percent to 2 percent, and that would have enormous impact on trade.

Secretary BLOCK. That is right.

Senator BOSCHWITZ. That, perhaps, is the most telling aspect of whether or not these embargoes can effectively be pulled off, and perhaps is a large part of the story of why they have not been pulled off.

Would you, finally, comment on what you think the Russians will import in 1982 and what our share of that will be?

Secretary BLOCK. They should import in excess of 40 million metric tons, up to 45, perhaps. The United States has to this point received orders for close to 11 million metric tons, and we have offered them up to 23 million metric tons total. I cannot predict how much of that total 23 that they would take. I am optimistic they will take more than what they have taken so far. One reason for my optimism would be that they have demonstrated a continued willingness to come into the market by their recent purchase of a large contract of broilers. They purchased 5,000 tons in one contract, which is as much as they have purchased—almost as much as they have purchased in any one complete year before, and they are still negotiating more.

It is true, relative to previous years, that one purchase was about as much as they bought in any one year.

Senator BOSCHWITZ. Let me ask one final thing with respect to your testimony. You said the Government actions of embargoing increased in outlays of just under $2 billion, without considering a loss of revenues that the farmers experienced and that the economy as a whole experienced. Do you have any sense of what it cost the Russians, what the embargo cost the Russians, in dollars, and if I may continue the question, as I understand it, it cost our Government approximately half a billion dollars to get the exporters off the hook on the contracts that they have because of the declining markets right after the embargo; we had to make up approximately half a billion dollars to contractors. It would seem to me if *the Russians were able to go out on the world market at a lower* price and restore some of those contracts that they had at lower prices and even, perhaps, make some savings. Would you comment on that and comment on what the net cost to the Russians was?

Secretary BLOCK. I do not have any figures on it, but I concur with what you are suggesting. They had made purchases on orders from the United States at a fairly high price, and after the embargo, the price exhibited a precipitous decline. And I do not know, but I would assume when they went out on the world market and filled those contracts somewhere else, the world price was quite a bit lower, and they were able to find, probably, a bargain, relative to ours.

Senator BOSCHWITZ. Thank you, Mr. Secretary.

Senator ZORINSKY. Mr. Chairman, would you yield?

Senator BOSCHWITZ. Certainly.

Senator ZORINSKY. Mr. Secretary, would you agree that, as the chairman pointed out, the program cost because of the embargo was just under $2 billion, and would it not be true that many of our current program costs—some percentage of those program costs—could still be attributed directly back to the embargo that are ongoing today?

Secretary BLOCK. I do not think there is any doubt about that, because as I pointed out in my testimony, I would project that our exports to the Soviet Union, had we not seen the 1980 embargo, today could easily be about 35 million metric tons. That would have provided a great amount of strength to our markets, and we would have avoided some of those costs that you are suggesting.

Senator BOSCHWITZ. Pardon me, Senator Dixon.

Senator Dole pointed out that there were deficiency payments of approximately half a billion dollars last year. Would that be one of the costs that you think might well have been avoided?

Secretary BLOCK. Very possibly. I would suggest that probably it could have.

Senator BOSCHWITZ. Senator Dixon?

Senator DIXON. Thank you, Mr. Chairman.

Mr. Secretary, first, may I thank you on behalf of the committee for a very fine presentation of your position and how eloquently you put your position with respect to your support for American agriculture and a sound export policy.

The other day in our testimony here, we heard a lot of expressions, by a variety of experts, to the effect that the simple perception of the possibility of an embargo in fact puts in place almost a de facto-type of embargo. Would you support that point of view? Do you believe it is a fair statement that the fear of it, affects the marketplace and has a depressant effect upon the market?

Secretary BLOCK. Well, I think that there is probably no question about the fact that the international tension that is exhibited today and the great amount of talk—and it comes from all quarters—really, the talk comes as much as anything from just people—columnists, writers, and everybody—and the fact that we had an embargo in the case of Afghanistan, I guess, probably causes greater concern than it would had we not had one then, and I think it is certainly correct to say that it has had a damaging effect on the market; psychologically, it has weakened them. It may have caused the Soviet Union to not buy as much as they might have otherwise; however, I would say, like I said earlier, I was encouraged by the purchase of poultry, and I would predict they will be in for more grain.

Right now, their ports are so clogged with grain, they cannot handle anymore right now anyway.

Senator DIXON. Well, if I could pursue that with you a little further. Under the formal extension of the previous agreement, the Soviet Union may buy up to 8 million tons, and under a later, informal offer by our Government, the Soviet Union may buy an additional 15 million tons, as you have testified, for a total of 23 million tons.

Now, presently, they have purchased only 10.9 million tons, or less than half of what they would be permitted to buy. Wouldn't you say that it is a possibility that a good deal of this talk is keeping the Soviets out of our markets, that it is having a depressant effect?

Secretary BLOCK. It is hard to say. I really could not say for sure on that, but certainly, the tension does not help. And I think there is no question about that. But at the same time, I do not think the President has any—there is nothing else he can do. He cannot be happy with the Soviet Union, with their actions, and he must challenge them, and he must tell them that they are misbehaving. So there is nothing we can do, but I would concur, it may be keeping them out to some extent, But I would also like to say that they like to buy our grain, because we have high quality grain, we can move it in big ships, we can move it efficiently out of our harbors, and it is easy to handle over there, so I think they would like to get into the market.

Senator DIXON. May I ask you, Mr. Secretary, if it is not a fair interpretation by this committee of your very fine statement here that you are saying that under the existing situation, under the prevailing circumstances, you have a strong feeling as Secretary of Agriculture that no sanctions with respect to agriculture should be imposed at this time?

Secretary BLOCK. I think there should not be any unilateral sanctions; there will not be any. But I am not going to say what the President should or should not do, because that is not for me to say. All I can say, as he said before, under extreme conditions, he might be willing to do something in terms of across the board, but I cannot predict.

Senator DIXON. Wouldn't it be a fair interpretation of all these charts and all of your testimony and the entirety of your remarks, given the increased productivity in other countries and the enlargement of their grain exports, that such sanctions without the support of all our allies, and many of the other countries you have named here, would be virtually useless in its impact on the Soviet Union?

Secretary BLOCK. I would say that it would be ineffective. As I have pointed out in my testimony in the final analysis, as a matter of principle, the President, under certain serious conditions could do anything, and he needs to have that prerogative at his disposal.

Senator DIXON. Well, I am sure we would all agree with that. I would want to point out again that you and I are both Illinoisans. We have seen so far with respect to the sanctions the fact that Caterpillar will not be selling a pipe-laying tractor, that Kumatsu will sell what looks the same as the Caterpillar; another Illinois firm has some problems with respect to an old tractor not even manufactured in this country anymore, and the sale of that particular commodity that they manufacture. And we have seen what you said about Argentina and other countries, all of which testimony this committee has received already and is well aware of. It would seem to me that it is a fair interpretation of your remarks and all the other evidence we have received here that as long as the rest of the world, particularly our allies and friends, are not supportive of what we do, that the impression it makes on the Soviet Union, from the evidence you have given us here, is very scanty indeed. Is that a fair interpretation?

Secretary BLOCK. I would say it would not carry as much weight as we would like to see because, for one thinq, as I pointed out, the percent of their market that we are supplying now is not what it used to be. It was 60 or 70 percent, and now it is down to 25 percent. So we just do not have the leverage we had.

Senator DIXON. I would like to have one further piece of your expertise, Mr. Secretary. Dr. Cook and others testified here the other day, I think about a thing that we do not discuss very much. We talk about how Argentina and a great many other countries have enlarged their exports. Another point made here was the efforts of countries, given all of the uncertainty in the marketplace and our unreliability as a seller of these commodities, to become more self-sufficient. I think Mexico was pointed out as a country which is right now undertaking a massive new effort to enlarge their acreage and their productivity of a variety of commodities as a consequence of the uncertainty of the marketplace. Do you find that evidence as Secretary of Agriculture, that a great many countries, including the Soviet Union, are trying to become increasingly more self-sufficient and gaining in that measure by virtue of all the uncertainty in the marketplace?

Secretary BLOCK. Almost everywhere I go, it is a national initiative that is being undertaken to be self-sufficient in agricultural production. Even in the most recent trip to Africa, to the Cameroon, Ivory Coast, and Nigeria, each of those countries have that same national desire and national commitment. I am not sure that it is something new, though. It may be something that the countries have almost always had. But part of it is they just want to be sure of their food supply, and they have seen some uncertainties in the past, and I think your point is well-taken, Senator.

Senator DIXON. And that would be a natural thing, of course. And may I say as my final question, then, Mr. Secretary, isn't it a fact that what we see unfolding here, and we have continuously seen all of last year and again this year, is the fact that two things are occurring in the world that have a detrimental effect upon American agriculture—first of all, the propensity of all of these countries to become more competitive and to enlarge their productivity when they see these opportunities in the world, and second, the propensity of countries to become more self-sufficient because they perceive us as an unreliable supplier and consequently, think that they are going to have to become more productive in their own right to take care of their own national needs. All of those things present, in my view, if this is a fair question, Mr. Secretary, a growing problem for American agriculture if we do not have some kind of a national consensus about what we are going to do about the problem. Is that a fair statement?

Secretary **Block**. That is a fair evaluation, and I concur.

Senator **Dixon**. Thank you, Mr. Secretary.

Senator **Boschwitz**. Senator Jepsen?

Senator **Jepsen**. Thank you, Mr. Chairman.

Mr. Secretary, you recently stated that as far as agriculture is concerned, the effects of the postponement of negotiations on a long-term agreement with a Soviets are minimal, practically nothing at all.

Would you clarify for the record your reasons for this belief, because as I read it and as I understand that, it certainly is contradictory to what many in the grain field, grain trade, feel otherwise.

Secretary **Block**. Well, I guess the reason for my feeling that way is that the Soviets can continue to buy—and they were offered a substantial amount this year—and if we did not have a new agreement, did not consummate one for next fall, they would have full access to our markets, just as any other country does, so there would be no limitation on what they could buy.

I do realize that they may prefer to have a long-term agreement, because they have gone out and seen fit to seek these agreements with other countries, and that being the case, they might be prone to buy more, or we would not be quite as much of a residual supplier if we did not have one. That is one reason why I have supported a long-term agreement, because it keeps us out of that area of being a residual supplier. At least we are sure of so much that we are going to ship to them, probably.

Furthermore, it is still a good, long time until next October 1, and it is entirely possible that we could consummate an agreement between now and then, and I would not at all assume that that could not happen. I think it is a distinct possibility. And I think we all in this room would have to agree that the international tension today does not lend itself very well to the negotiations of a long-term agreement, and it might be wise to wait.

Senator **Jepsen**. What do you see as a consequence—should no grain trade agreement be negotiated beyond this current extension of September 30?

Secretary **Block**. If there is no agreement reached, the Soviet Union would still have absolute access to our market, just as any other country in the world does, and they could buy any amount they wanted. And I would assume they would be in the market, and they would be buying. But I cannot predict how much they would buy.

Senator **Jepsen**. Witnesses earlier this week, Mr. Secretary, voiced alarm over the lack of resolve of the U.S. Government to implement effective negotiations to remove import barriers to U.S. corn exports. They also felt the Government is moving too slowly on eliminating unfair grain export subsidies, particularly by the Common Market countries. I shared with you yesterday a good meeting with representatives of the European Common Market here at lunch, in fact, in this very room. What is your response to this observation that we are moving too slowly on eliminating unfair grain export subsidies? What is the answer?

Secretary **Block**. Well, of course, we never see progress as fast as we like to see it, especially in Government. But I can assure you that this administration, which is different from what we have seen in past years, has taken a very strong stand in demanding that the European Community discontinue exercising trade practices that we think are entirely unfair and totally unacceptable. I have been in Europe; Ambassador Brock has been there. We were there with Secretary Haig in December and met with the European Community, the president of the EEC. We met with the Minister of Agriculture and have been letting them know of our concern. And I compliment the Senate, I compliment you in your efforts to help insure that we get some progress on this issue. All I can say is we are going to be pushing as hard as we can, trying to kick the door down.

Senator **Jepsen**. You have been very, very effective, probably more so than any Secretary of Agriculture in recent history, in establishing a relationship with other Cabinet level offices and areas of responsibility in the administration. And I am referring both to past Democratic administrations and Republican administrations; I commend you for that. In one form or another, even those of us in the Senate have to have our own ears—as the President said, this is one big ear around here—well, we have our own ears by way of feedback and information. I believe that we are coming to a point in time that we must develop a national policy as to how we are going to utilize, address, the agriculture economy with regard to implementing foreign policy.

We hear lots of talk, and we wail, and say how terrible the embargoes are, and I have heard it year in and year out. When the embargo came on the beans, as you mentioned earlier, Brazil, geared up, Japan invested, and we know that we lost a 5-year contract that Poland then made with Brazil that Poland was about to conclude with us, just for starters.

And yet, it happened again. As you say, it has happened six times in the last 30 years, each time, resulting in disaster to the farm economy. We have got to have—I think the time has come—it has been pointed out, in addition to a selective embargo, even an embargo across-the-board, there are certain unique characteristics of the agriculture community by way of renewable supply, by way of other countries with land available and so on, ready to step in and fill the gap. We have lost the markets. It is all a matter of record, and it is there. Frankly, I think it is time we developed a national policy. I think it can be done with perspective and with a little imagination. All we hear about, the first thing foreign policy-wise—and it has been unfortunately with both administrations, from some of the various Cabinet officers—when they get a little firefight going someplace, or a little activity going that we want to address ourselves to and warn them about, we start talking about grain embargoes and embargoes. You know, there are many other areas that we ought to take a lesson from the way the Russians react. They get our attention by doing something somewhere else. They have us in a position now, because of our acquiescence and because of our no-win policy and no-name policy and no policy at all that we have had over the years—and the Congresses here have been supporting up until just recently—that gives the Soviet Union encouragement to go ahead and do whatever they want. We have Africa, a continent that is unlimited in its potential for markets for us, and on a human rights and a human needs basis, certainly, we need to be in there, helping our brothers, as we were at one time, and recognized 20 years ago. But what do we have? We have Cuban surrogates just loaded in Africa, because we have given them an absolute, red-carpet treatment. We invited them in there, saying, "Angola is off-bounds; help yourselves." So now, we have markets destroyed, we have problems at home.

How do you feel? Do you feel that there is a chance that Secretary Baldrige and Secretary Haig—I was pleased to hear, by the way, that Secretary Haig, for the first time publicly, to my knowledge, the other day at a committee meeting said, "we are not going to have any selective embargo"—was that it—you did that, didn't you? Congratulations.

Senator BOSCHWITZ. We just put a provision in the farm bill, Senator, that is punitive enough that if there is going to be an embargo, there has to be a total embargo. We now have on our side Caterpillar, International Harvester, plus a few other heavies. That helps a little bit.

Secretary BLOCK. May I comment, and I have heard it more than once even today, suggestions about trade policy. I am working on a national trade policy, and I concur we need one—a national, agricultural trade policy. And it is something broader and bigger and more important than talking a little bit about an embargo and things like that. It is really talking about the United States being a reliable supplier, the United States being willing to defend our markets against unfair practices, that we will not tolerate unfair practices, and there may be more to it than that. But it is in the process, and maybe there will be a chance to talk about it sometime. I have some ideas on it; my mind is open. I have talked to some other members of the Cabinet, and I am working on it.

Senator JEPSEN. Well, I certainly do. Has this been done with input from the State Department—in other words, were Commerce and State Departments involved in this?

Secretary BLOCK. I have not talked with all of them yet. We are just starting.

Senator JEPSEN. Well, when you get around to that, just let us know how we can help, and my colleagues and I will join in the battle—and I expect there will be some.

Secretary BLOCK. It is such a reasonable consideration, maybe there will not be any battle.

Senator BOSCHWITZ. Senator Zorinsky?

Senator ZORINSKY. Thank you, Mr. Chairman.

Mr. Secretary, you pointed out—and I listened very closely—the fact that there is a great deal of land throughout this world that could be utilized in additional production of agricultural products. In fact, more than a great deal of land, a lot of land that is competitively being used against the United States could be put into production—did I hear that right?

Secretary BLOCK. Yes.

Senator ZORINSKY. Also, you indicated that long-term agreements are something that you support, personally, inasmuch as it gives the image of a reliable supplier throughout those that do the purchasing.

Let me ask the question, when we entered into these recent grain agreements with the Soviet Union, was it because it was in their best interest or because it was in our best interest, in order to do those things that you pointed out, making us a more reliable supplier, making sure that we do not invite the additional production that all those idle acres of land throughout the world could be used against us. It was my assumption that we initiated the grain agreement talks with the Soviet Union because it was in our best interest. Is that true?

Secretary BLOCK. Yes, I feel that it was. I think that we did that because we felt that if we knew the kind of volume that they would be buying on a regular basis, it would not be disruptive to our markets and our marketing system, and for that reason and additionally, we knew we had that much additional market.

Senator ZORINSKY. In addition to that, besides creating the illusion of a reliable supplier, also isn't it true that it gives the farmers of America a more substantial base from which to plant and which to gage production, with the knowledge that for 5 years, there is a firm agreement with the Soviet Union. In addition to that, would not having an agreement in place, have a positive effect on the commodity prices within the country, thereby stabilizing a farmer's payback ability when he goes to borrow money from a bank or from a production credit association? In other words, it is entirely in our best interest and obviously not in the Soviets best interest, because they have proven they can displace what we withheld from them throughout the world; am I correct in that assumption?

Secretary BLOCK. I feel it is very much in our best interest. Any agreement has to be in the best interest of both countries, or it would never be consummated. But it would be in their best interest, because they feel comfortable that they have that assurance.

Senator ZORINSKY. Well, I am not so concerned about their interests——

Secretary BLOCK. No, nor am I.

Senator ZORINSKY [continuing.] But I think we unanimously and totally do agree that it was in our best interest to initiate grain talks with the Soviet Union. Then, why in the hell did we stop?

Secretary BLOCK. The talks were called off, or the scheduled date was postponed, because of the tension in the world between the United States and the Soviet Union. And I just think that most everyone would have to concur that they are not very good times to be negotiating an agreement until, hopefully, we see——

Senator ZORINSKY. If it was in our best interest to initiate them, then you say that it was in our best interest to stop them?

Secretary BLOCK. Well, you have got to decide whether they are going to be successful or not under the conditions. I think that is the decision.

Senator **Zorinsky**. Well, how can they be successful if unilaterally, you stop the talks? How do you know they are not going to be successful as a country when we unilaterally tell the Soviet Union we do not like what is happening in Poland, so therefore, we are going to discontinue the talks? Talks cannot be proven successful or unsuccessful unless they happen.

Secretary **Block**. Well, certainly, the situation in Poland, as I alluded to, was the reason why they were postponed—and that is what they were. They were postponed; they were not called off, or anything like that.

Senator **Zorinsky**. Who made that decision?

Secretary **Block**. That decision was made by the President. That is a fact.

Senator **Zorinsky**. And yet, it is the feeling of everybody that—do you think we ought to have those talks going on now?

Secretary **Block**. No, not now, but——

Senator **Zorinsky**. The farmer, then, should continue not to know how much to plant next year because maybe we will or maybe we will not continue the talks.

You know, I found out one thing, and I am business-oriented—I am not an attorney, but I was in business for 23 years before I came to the U.S. Senate, and I found out one thing as a businessman. I was never able to corner the market on anything I ever sold, and for every competitor I bought out or put out of business, another competitor sprung into place. So, while we sit here and say we are not going to have future grain agreement talks—and that is not a "love-in", and that is not any obligation upon the United States of America with regard to what happens to the Soviet Union—it is simply asinine and stupid to discontinue something which is vitally in your own best interest. If the Soviet Union tomorrow were to call on the telephone and you even stated here at this table that they still have access to our supplies—if we will sell them tomorrow morning, if they call for grain, then how is that different, to enable an American farmer to plan for next year's planting, than if we have ongoing talks. I am sure we do have ongoing talks with the Soviet Union at this very moment in other areas and other spheres of influence, which again leads me to believe that the priorities of agriculture with this administration, past administrations, and unfortunately, maybe even with future administrations, will always hold agriculture in not a very high esteem, when in my estimation, if it wasn't for the manufacture of airplanes and agriculture, this Nation would have little, if anything, to sell to the rest of the world.

I would like to call attention to page 8 of your comments, the last paragraph, stating, "If new sanctions were to discriminate against agriculture, the new Agriculture and Food Act of 1981 requires large outlays to compensate farmers."

We have sat at this table numerous times and agreed that there is not going to be any singling out of agricultural commodities as being the only embargoed items. Now, the possibility is that new sanctions could develop. We have also agreed that if everything is embargoed totally, agriculture certainly does suffer a disproportionate share of burden of that total embargo.

Now, based on that, the words in your statement saying, "If new sanctions were to not discriminate," is there any doubt in your mind that they would not discriminate?

Secretary BLOCK. Well, I concur when you are saying agriculture would carry the biggest burden, because the biggest amount of trade with the Soviet Union is agricultural. I do not dispute that point. But what it is really saying here is just saying, "did not discriminate," by meaning everything was embargoed generally across the board. That is all it means.

Senator ZORINSKY. Then, it has no relationship with the economic penalties being imposed on each of the——

Secretary BLOCK. Well, it means that everyone who is trading with the Soviet Union suffers the same penalty. They do not get to trade anymore. And I think even as the chairman here has pointed out, there are others that are trading with them, and it does mean something to them, too. It is just in terms of total trade. The nonagricultural trade is not as high a percentage as the agricultural trade.

Senator ZORINSKY. Well, we are talking about exports to the Soviet Union, and I am talking about economic penalties to the individuals involved in the production of those products. It is very obvious that a farmer is additionally discriminated against and penalized in the event of a total across-the-board embargo. Certainly, there are great economic penalties when agriculture is discriminated against. It would suffer most certainly a penalty from the aspect of the farmer producing the product. However, if we are taking it in the context of everybody cannot ship, then obviously, your statement is a true statement that nobody would be discriminated against. But again, I say then you are striking to the very heart of the future of survival of agriculture in this country. Agriculture takes its fair share of burden every time there is an embargo; farmers are very patriotic citizens. But the bottom line is nobody can stay in business unless they can make a profit, regardless of whether they ship to the Soviet Union or not. And if you additionally, economically penalize farm families to the extent they cannot stay in business, then I say they are accepting an unfair share of their burden. You do point out what happened as a result of the last embargo, where loan support prices can be increased, set-asides, or reduction in planting with paid diversions, can be put in place, and all those types of farm program tools can be utilized, those fine-tuning levers that you have available through your discretionary powers as Secretary of Agriculture. And I would feel that the farmers of this country would feel a little more secure if, No. 1, we would acknowledge that they would assume an additional penalty above and beyond what other industries would get in the event of a total, across-the-board embargo. And second, that there be in place some type of assurance to the agricultural industry as to what that safety net would be in the event that it happened. As it is right now, I think a lot of farmers feel that they are being sold right down the river, and whether they are being singled out, or whether it is total embargo, they are still going to be the stuckees of any future embargo.

I want to thank you very much, Mr. Chairman, and Secretary Block, I do respect your voice for agriculture, and I want to assure you that this committee wants to do everything in our power to make sure that the consumers of America understand that we all have to work together, agriculture hand in hand with the consumers of this country, to assure the perpetuation of the family farm as we know it today—and as we know it today, the future is not very bright. Hopefully, with your leadership and a recognition by this administration that one of the high priorities of our Government is "keeping family farmers in business." Working together, I hope we can get that job done.

Thank you, Mr. Secretary.

Senator BOSCHWITZ. Thank you, Senator Zorinsky.

I would like to just ask one or two more questions, and then we will come to an end, Mr. Secretary.

You stated that in the event the bilateral agreement is not renegotiated with the Russians—and of course, the President has said that we are not going to enter into those bilateral negotiations now—that the Russians would then be in the position to come into our marketplace, and we would just be open to buy—somewhat similar to the graph back in 1972, when they came in and made their so-called great raid. What is the likelihood, under present circumstances, if we are not entering into bilateral negotiations, of their coming in and buying, because without any type of bilateral agreement, of course, their entire purchase would be subject to an embargo.

Secretary BLOCK. Well, I cannot predict to the extent that they would come into the market and buy, but there are drawbacks to whatever way we go on this, and I guess one side of this has not been pointed out, and in all fairness, perhaps I should point it out. When you have an agreement, part of that agreement is that they are able to buy so much, 8 million metric tons with this current agreement, but they have to get permission to buy beyond that. Well, if we did not have any agreement at all, they could buy any amount they wanted without permission. So, when you look at that scenario, you might say, "Well, it looks better if we have no agreement at all, because they could just buy any amount they wanted, like any other country." And I only point this out because one of the major farm organizations, the American Farm Bureau Federation, does not want to have an agreement, and it is not universally accepted that an agreement is the best thing.

I would say, however, though, personally, I think we should have one, but the time is not appropriate to negotiate.

Senator BOSCHWITZ. Do they have to get permission, or do they have to give notice?

Secretary BLOCK. They have to get permission above the 8 million metric tons.

Senator BOSCHWITZ. They do not have freedom to buy?

Secretary BLOCK. No, and we granted that permission this fall for them to come in and take as much as another 15 million metric tons, if they chose to do so, but we had to come to that decision, and it was really my call. I wanted them to have all they wanted and hoped that they could buy it.

Senator BOSCHWITZ. But they give notice when they come in to make any specific purchase?

Secretary BLOCK. That is right.

Senator BOSCHWITZ. The permission, so to speak, is granted in very large terms. Therefore, they have the ability to come in and buy another 12 million metric tons, which is the unpurchased portion of the 25 million. In a sense, we have a situation where they can simply come in and buy, without having the assurance that on anything beyond the 8 million tons, they would be safe from having the surplus above the 8 million tons, interrupted by an embargo. Have they come in and bought in the last 6 or 8 weeks?

Secretary BLOCK. They have not bought grain. As I pointed out, they did buy broilers.

Senator BOSCHWITZ. Chickens, yes. They have not come in and purchased when they have not had protection against the possibility of embargo.

Secretary BLOCK. Well, they didn't have the protection on the broilers, either.

Senator BOSCHWITZ. We never embargoed the broilers.

Secretary BLOCK. Oh, yes, we did, though. We embargoed the broilers before, in 1980.

Senator BOSCHWITZ. Oh, that was part of the entire embargo. That is indeed the case.

Secretary BLOCK. Yes.

Senator BOSCHWITZ. Well, Mr. Secretary, my part in calling these hearings is the idea of trying to maintain free markets for agriculture. I do not think, as I mentioned earlier, that agriculture has much opportunity of obtaining from this Congress a very high level of loan rate or a very high level of target prices. Maybe in the free market system, which I normally adhere to, there shouldn't be a high level of target price or a high level of loan rate. The best opportunity, in my judgment, for the farmer to prosper, is to have the free market system and to have the markets available to them. So that is why I am so convinced that it would be easier to sell the idea that embargoes simply do not work.

Senator ZORINSKY. Mr. Chairman.

Senator BOSCHWITZ. Yes.

Senator ZORINSKY. You made the comment on the free market system, and I think the Secretary pointed out, and I agree with him, there can never be a free market system worldwide unless the subsidies that European Community countries give their agriculture that we are not giving are phased out. As a Cochairman of the Canadian-United States Interparliamentary Conference, every year that I have met with the Canadians, they are getting closer and closer to making a decision to really expand their transportation facilities, because that is the key to almost doubling their production with regard to exports. So they are going in that direction, while we sit around and twiddle our thumbs.

But it cannot be a free and open market if the countries subsidize their agriculture far more than we do, and we cannot compete with them. That is why I always felt that possibly, Al Haig ought to tell those people over there that if they spend a little more money on their defense umbrella, diverting some of those dollars that go into their agriculture subsidies, our agriculture could compete worldwide in the market.

Senator BOSCHWITZ. I agree with the Senator's comment. We have taken that up very forcefully with the European Community.

I agree also with respect to your comments on defense. Those subsidies do not allow for a free market situation to exist.

But in any event, it is interesting to note, too, Senator, that the infrastructures of the other producing countries have been really what held them back. Dr. Cook testified when he was here, Mr. Secretary, that the Argentine farmers receive 30 percent of the net price, f.o.b. at Rotterdam. Therefore, if a bushel of wheat is $5 f.o.b. Rotterdam, the Argentine farmer gets 30 percent of it, a dollar and a half, but 70 percent is necessary to transport and load and ship the grain, because of the defective aspects of their infrastructure. Therefore, if the large international grain traders go in and help in the construction of that infrastructure, as they now are doing, and if the cost of shipping to the marketplace and loading onto the ships suddenly becomes more efficient, they may get 40 or 50 percent of the net f.o.b Rotterdam price, which would give them an enormous incentive to increase their production. As we noted a little earlier, the Argentines have quite a capacity to do so. We had, as one of our witnesses, Robert Paarlberg, whose father is well known in agricultural circles, He noted in his article in Foreign Affairs in the fall of 1980, that if the Argentine farmers begin using high-yielding varieties of grain, and if they bring more land under cultivation, their annual harvest could very well double in coming years from 25 to 50 million tons—something we talked about just a little bit earlier, and the increase of their exports during the embargo has really been quite legion.

Professor Paarlberg also contested whether or not the interest and other economic factors hurt the farmers more than the embargo. He made a very strong case for the fact that the embargo did not work. For example, in 1980, the Russians imported 33 million tons, in 1981, 38 million tons, and they were probably constricted by their port capacity from importing more, rather than by an inability of supply. He pointed out in his article, as well, that the European Community, the Canadians, and Australians got together, and made a public pledge when we imposed the grain embargo, that they would hold down their shipments to normal levels—normal levels became a thing that was difficult to define. Australia shipped more in a single year, twice as much, as it had shipped in the preceding 7 years. The Canadians, the European Community, and Australia taken together have more than doubled their shipments to the Russians, and that was within normal levels, somehow.

So the embargoes simply did not work. We, I think, have a fair shot at convincing the folks in various departments of Government, the folks at the White House, and our fellow Senators, that these things simply do not work; that we are, as I say, shooting ourselves in the foot. I think our fairest and best shot for American farmers is to expand our market. When two-thirds of our grain and 55 percent of our soybeans and a one-third of our corn are shipped abroad, that has got to be an important part of the future success of agriculture. In my State, and in Senator Zorinsky's State, and in most States in our part of the country and in other parts of the country, when agriculture succeeds, all around them do very well.

One point of controversy that sometimes comes up is that we are somehow taking the Russians off the hook by shipping them agri-

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cultural products. As you mentioned in the first part of your testimony, people have rather exaggerated ideas of what the so-called "food weapon" is and what we are able to achieve with it. Do you feel that we are in some way taking the Russians off the hook by shipping them grains that they have been unsuccessful in growing?

Secretary **Block**. No, I do not think we are taking them off the hook. Frankly, as I pointed out earlier, there are a number of ready and willing suppliers; if we do not supply it, someone else will. Furthermore, the Soviet Union is able to acquire about—or earn—about $20 billion in hard currency dollars, hard currency from other countries, and they need this hard currency to buy whatever they need from the international markets outside of the Eastern bloc. And right now, they are spending about one-fourth of that, just buying food. Frankly, I think that is not a bad situation. They are using their hard-earned resources to buy food which is shipped over there, and then the people eat, and it is gone, and then they are going to need some more tomorrow and the next day and the next day. And of course, this has forced them into selling large amounts of gold. They have been, I understand, selling even heating oils in the winter, which is quite uncommon. It indicates that it puts some pressure on them, and probably, they may not have as much in terms of resources to spend on military if they are spending it on food.

Senator **Boschwitz**. I might say that Professor Paarlberg makes the interesting point that we may be giving the leaders of Russia an opportunity to make an excuse to their own people about the failures of their farm economy, and that in a sense, we may be taking them off the hook by creating this excuse.

Senator Zorinsky?

Senator **Zorinsky**. Mr. Chairman, I would just like to briefly comment that, there is such a thing as someone remembering a friend in a time of need. Brought to my mind, during the not too long ago gas lines here in Washington, D.C., where people lined up for blocks waiting to get their gas tanks filled, there is a citizen in Washington who used to go down as an accommodation after the gas station was closed, and the gas station owner would meet him there in the dead of night and open up the station and let him fill up at his pump. Now that the gaslines have disappeared, that client of that gas station will buy gas there the rest of his life in memory of what was done for him as an individual during the gas lines. I would just like to point out that this is human nature. I have talked to members in the Soviet Embassy who indicate to me that Argentina is their true friend, Argentina did something for them during a time of need. I think this is just human nature, and they have indicated to me that they are going to do everything in their power to assure that the majority of their purchases come from Argentina with all practical ability, and that whatever else is left, they will purchase from us. These are the kinds of human responses you do not have to learn from history, you can learn from insight and from personal experience. That is why I feel that there is totally nothing whatsoever to be gained by embargoes of this nature, other than if you really want to create a fertile marketplace for your competitors.

Senator **Boschwitz**. Mr. Secretary, do you have any other comments?

Secretary **Block**. No; I appreciate the chance to appear here today. Thank you, Mr. Chairman.

Senator **Boschwitz**. I think that was an appropriate closing statement, and I thank you, Senator Zorinsky.

Senator **Zorinsky**. Thank you, Mr. Chairman.

[Whereupon, at 11:10 a.m., the subcommittee adjourned, subject to the call of the Chair.]

APPENDIX

STATEMENT OF HON. BOB DOLE, A U.S. SENATOR FROM KANSAS

I think that it is appropriate and timely for the Agriculture Committee to hold these hearings in order to fully understand the impact and cost of embargoes on agricultural trade.

It was last April 24 that President Reagan fulfilled his campaign pledge to lift the Carter embargo against the Soviet Union. No one has been able, to my knowledge, to accurately assess the total loss to U.S. farmers and the overall U.S. economy of that 15 month catastrophe.

One reason is that the debilitating effects of the Soviet grain embargo are still being felt. Trade relations are similar in many ways to political or foreign relations—they rarely stand still. If they are not improving and expanding, it is likely that they are deteriorating.

So when we talk about the cost of the last embargo on agricultural sales to the Soviets, we need to include export sales lost after April 24 as well as before.

Even if relations with the Soviet Union had not been dealt a serious blow by their encouragement of the current repression in Poland, it was evident by the slow pace of Soviet purchases of U.S. grain between April and December that restoration of normal trade relations was going to be a long and difficult process.

THE VALUE OF EMBARGOES

As a means for expressing Government displeasure with the behavior of irresponsible nations, embargoes are only one weapon in a vast arsenal of alternative measures.

The unique feature of trade sanctions is that, in addition to representing a response to some hostile action, they are meant to punish an opponent economically.

The reverse of this fact is that trade embargoes are valuable as sanctions only if they succeed in punishing the economy of a foreign aggressor and making that country "pay" for its actions.

THE WORLD GRAIN ECONOMY

As we saw in the case of the recent grain embargo on the Soviet Union, the actual damage on the Russian economy was minimal. There was a reduction in the growth of animal numbers on Soviet farms but the quantity of wheat, feed grains and non-grain feed ingredients imported during those 15 months was close to what they would have brought in anyway.

At the same time, grain prices in the U.S. were severely undercut at the beginning of the embargo and were only restored through the acquisition on large wheat and corn stocks by the Commodity Credit Corporation. These Government-owned supplies continue to burden the Federal budget and overhang the market today.

Two basic features of agriculture and particularly grain are that basic commodities are fungible—their identity is easily lost—and there is no recognizable limit to their production if prices are attractive.

We found out about the second feature during the embargo on soybeans in 1973 when the Japanese turned to heavy investment in Brazilian soybean production to ensure a reliable supply. As a result, the U.S. lost its dominant position in a number of soybean markets.

The same situation continues to unfold for wheat and corn in the wake of the Soviet embargo of 1980/81. Neither Argentina nor Brazil agreed to go along with the sanctions. Both are expanding the acreage sown to grain every year with the assurance that the Russians will buy everything they can produce before turning to the U.S. market as a supplier of last resort.

The other feature—that grain is indistinguishable as to origin once it enters international trade—also became painfully clear during the Carter embargo.

An indeterminate quantity of U.S. wheat and corn eventually reached the Soviet Union through either its East European allies or by transshipment at other locations.

THE CURRENT SITUATION IN POLAND

As to our continuing effort to ease the repression of human liberties in Poland, there would be little point in repeating President Carter's unfortunate miscalculation of January 4, 1980.

Even if trade sanctions imposed were across-the-board and included all U.S. products imported by the Soviet Union, the additional pressure would be minimal. Agriculture accounts for 75 percent of U.S./Soviet trade, and Soviet access to other suppliers has increased dramatically in the past two years.

In addition, we would again face the necessity of reimbursing or compensating exporters of grain and other products who have acquired commodities for shipment later this year or even later. This process was handled extremely poorly in 1980 and resulted in driving some firms into near-bankruptcy while overly-repaying others.

At last count, there were about five to six million tons of U.S. corn and wheat contracted for but still unshipped to the Soviets. Cutting across these contracts not only would violate traditional trade practice but would further swell Government stocks of grain left over from the last embargo.

CONCLUSION

I don't think anyone can fully subscribe to the argument that, since trade relations bring nations closer together and increase their dependence, they should not be severed under any circumstances.

The decision to reduce or cut off trade should, however, be predicated on the knowledge that such an action would severely punish one's adversary, hopefully more than it punishes one's own domestic economy.

One lesson from the recent embargo is that trade—at least agricultural trade—is not an effective lever in correcting Soviet international behavior.

If we mean to do something that will have a meaningful impact and get our message across, other avenues should be explored before we turn again to an economic solution that may, in the end, be another economic disaster for American farmers.

WASHINGTON, D.C., *January 15, 1981.*

Mr. GEORGE WILL,
Newsweek Magazine,
Washington, D.C.

DEAR MR. WILL. By way of introduction and credentials, I was Economic Advisor to Secretary of Agriculture, Ezra Taft Benson from 1954 to 1961. I have been a self-employed, successful economic consultant since President Kennedy was kind enough to relieve me of my official duties. I grieve when I read or hear conservatives recommending failed policies, i.e. grain embargoes.

I have studied the impact of the partial embargo announced by President Carter on January 4, 1980, as a response to the Soviet invasion of Afghanistan. The term "partial" is used because the suspension of grain shipments referred to guantities in excess of 8 million metric tons per year committed under the 5-year sales agreement. A complete embargo was placed on soybeans, soybean meal, flour, broilers, etc.

On January 12, 1980, the U.S. officials met with officials of the major grain exporting countries to discuss the sales suspension by the U.S. This included representatives of Argentina, Australia, Canada and the European Economic Community. With Argentina absolutely dissenting, the representatives agreed not to "directly or indirectly replace" the 17 million tons actually blocked from export from the U.S. to the USSR.

By July 1, 1980, the EEC, Canada, and Australia had made new grain sales to the USSR, at very favorable price levels. Argentina never stopped, and in fact signed a 5-year agreement with the Soviets to provide expanding quantities of grains and soybeans. The U.S. continued to supply the 8 million tons, as provided in the long term agreement.

Without getting into the Question of the morality of the sales replacement of the U.S. by other exporters, the cold figures on imports by the U.S.S.R., as revealed in the December 15, 1981 issue of the USDA's World Grain Situation and Outlook reveals the following:

	Wheat and coarse grains, million metric tons
1974-75	6.0
1976	25.6
1977	10.3
1978	18.4
1979	15.1
1980	30.5
1981	34.0
1982 [1]	42.0

[1] As projected.

The following table shows how the Soviets found other sources for needed grains, and how other exporters reacted to the offers of Russian hard currency:

U.S.S.R. IMPORTS OF WHEAT AND COARSE GRAINS BY SOURCE—1978-79 AND 1980-81, JULY-JUNE YEARS

[Million metric tons]

Country	1978-79	1979-80	Preliminary 1980-81	1980-81 verses 1978-79
United States	11.2	15.2	8.0	−3.2
Canada	2.1	3.4	6.8	+4.7
Australia	.1	4.0	2.9	+2.8
Argentina	1.4	5.1	11.2	+9.8
European Community	.2	.9	1.2	+1.0
Others	.1	1.8	4.0	+3.9
Total [1]	15.1	30.4	34.0	+18.9

[1] Total may not add due to rounding. Excludes rice and pulses.

In addition to the above, the Soviets are buying processed products in very large volumes, such as flour, feed concentrates, tapioca, oilseed meals, poultry and even macaroni. The major supplier of these commodities and products are Canada, Australia, the European Economic Community, Argentina, Brazil and Spain.

As these nations expand their export sales to the Soviet Union they will expand their long run productive capability to provide the import needs of the Russians. Not only will new profitable trade relations develop outside the U.S. orbit, but the net effect is a deterioration in relations with the supplying nations. The lure of Soviet gold is proving to be stronger than apparent commitments to restrain exports. Moreover, the USSR has entered into long-term supply agreements with nontraditional suppliers.

The partial embargo was a colossal failure with major adverse longer range harmful impact on the U.S., especially farmers and the U.S. Treasury.

Moreover, the results were a failure to create any major disruption in Soviet meat consumption. Witness the following meat consumption per capita in the USSR:

	Kilograms per capita
1976	52.8
1977	57.9
1978	58.8
1979	59.9
1980	58.3

Incidentally, the Polish data for the same years show a sharp deterioration in meat consumption per capita.

	Kilograms per capita
1976	74.7
1977	74.6
1978	69.4
1979	69.3
1980	68.6

The price depressing effects of the Carter embargo has had, and is having severe domestic fiscal effects including, but not limited to the following:

1. It requires the outlay of about $500 million in target price payments for 1981 crop wheat, barley and grain sorghum.

2. It has reduced U.S. income all along the line with resultant loss of income taxes from producers, labor and business amounting to several billion dollars.

3. It has forced the Secretary of Agriculture to announce his intention to impose a 15% voluntary wheat adjustment for 1982, and probable similar downward adjustments for feed grains, with resultant sharp reduction in potential income taxes due to reducing economic activity all along the line.

4. The potential exists for the USDA's Commodity Credit Corporation acquistition of large quantities of reserve and loan corn.

5. The CCC will continue to own 4 million tons of wheat and 6 million tons of corn acquired as a result of the Carter embargo in order to bolster domestic prices, with attendant storage, interest and other charges.

To date, the partial suspension of grain sales to the Soviet Union has not created the expected disruptions in the Soviet food supply, and there are some good reasons why it is likely to have a lesser impact in the future. First, grain producing competitors of the U.S. are showing less willingness to cooperate with the U.S. in limiting grain sales to the Soviet Union. Second, leakages of grain exports from the U.S. to the Soviet Union through third country "arrangements" are almost certain to increase in the future; the maintenance of an effective embargo of a ubiquitous product, such as grain, is extremely difficult. Third, if the grain sales suspension is maintained for a long period of time, or if it should become total, competing producers, including those in the Soviet Union, are likely to increase their longrun capacity to supply the grain needs of the Soviet Union.

In an address by Sir Leslie Price, Chairman of the Australian Wheat Board on August 25, 1981, we find the following characterization:

"While it is generally difficult to assess the long-term implications of the grain embargo, it would be fair to say that there has been a significant shift in world grain trading patterns since it occurred. It is likely that all of the major grain exporting countries, other than the U.S.A., will now become the main suppliers to the U.S.S.R.

"In our case, I believe that while the Australian Wheat Board has been a supplier to the U.S.S.R. market over many years, we are now in a position where we can confidently expect significant quantities of Australian wheat exports to be placed in that market. The Australian Wheat Board has underlined its position as a reliable supplier to the U.S.S.R., and this is going to hold us in good stead in maintaining our level of exports.

"It should be remembered that attempts by purchasers to seek long-term agreements, particularly with the U.S.A., are due to the fact that that country is now seen as an unreliable supplier."

The 1980 Republican Platform states: "We oppose Mr. Carter's singling out of the American farmer to bear the brunt of his failed foreign policy by imposition of a partial and incompetently managed grain embargo. Because of his failure to obtain cooperation from other grain exporting countries, the embargo has been a travesty and a substitute for policy. We call for the immediate lifting of this embargo."

The American farmer seeks the opportunity to compete in the market. The American farmer should not be held hostage to a failed policy.

Sincerely,

MARTIN SORKIN.

STATEMENT OF HON. DAVID H. PRYOR, A U.S. SENATOR FROM ARKANSAS

Let me commend you, Mr. Chairman, for calling this hearing to consider the impact of agricultural embargoes. In particular, I'm pleased to see this distinguished panel of experts and look forward to their testimony.

Our examination of this matter is both timely and urgently needed. It will permit the members of this subcommittee—and the Congress—to study the issues in order to be better informed and thus able to provide clear and specific recommendations. It will also better enable the farmers of America to become knowledgeable about a question that affects their very lives.

Mr. Chairman, there's an anxiety throughout the agricultural communities of our nation today. If it is not soon remedied, it could have drastic and permanent effect on both the millions of American farmers and also on our country's entire economy. Unless a solution to the crisis if found, I fear it is not an exaggeration to say that the miracle of American agricultural plenty could turn to dust.

Most of us hardly remember a time when Americans as a nation were hungry. In fact, we're accustomed to facing the problems of overabundance—how to store and use the vast produce of our land. But we know that it takes people and hard work to make the land produce. It does not produce by itself. And if the farmer is unable to make a living on his land, few will be able or willing to continue just for the fun of it. In a surprisingly short time, we could find our abundance disappearing. I shudder to think of the economic repercussions this could have—both here at home as well as around the world.

Mr. Chairman, the American farmer is more productive today than ever before. Yet he experiences greater financial difficulties than ever before. There are several reasons for this, but one very evident cause is the lack of assurances regarding markets and prices. We all know agriculture cannot be turned on and off like an assembly line. Once a farmer decides how much of a crop to plant, he is stuck with that decision—and with the investment he has made.

One of the greatest uncertainties facing the farmer is the threat of international embargoes. We are all aware of the disastrous effects of the 1980 grain embargo on the Soviet Union. The irony of that action was this: only our farmers were hurt. It wasn't the Soviets, and certainly not our international competitors. They moved quickly to replace us as suppliers. The repercussions of that embargo are still with us. Many of our traditional customers are leery about depending too completely upon the United States as a reliable supplier. They may buy from us, but they hedge their bets by maintaining strong trade relations with our competitors.

We experienced an embargo of a vital commodity in the early 1970s when OPEC cut off oil to the United States. I don't have to remind any one of our reactions to that move. I only ask that we remember that period when we wonder why our customers around the world are concerned about U.S. suppiies of vitally needed food.

It is my hope that we can establish a firm national policy that this country will be a reliable supplier to the people of other countries. I am not saying that we should sell agricultural produce or other U.S. goods to everyone at all times. There could be cases of vital national security when this nation would not trade with one country or another. In that event, I also hope we will fulfill our responsibility to the American producer.

Mr. Chairman, one historical point comes to mind in this connection. In 1939, Burma was the world's largest exporter of rice. Although it was then a British colony, the authorities followed basic free market policies. After the war, Burma had a long period of reconstruction from the damage it suffered. But in time it became once again a leading exporter of rice.

After a change in government in the early 1960s, however, agricultural production was adversely affected by counterproductive governmental policy. By the early 1970s, Burma was importing rice. The land was still as fertile and productive as ever. It was just that the agricultural policies followed by the government had made it impossible for the farmers to live.

Mr. Chairman, I hope we are not following Burma's example.

STATEMENT OF HON. DAVID F. DURENBERGER, A U.S. SENATOR FROM MINNESOTA

Thank you. Two years ago, on January 4, 1980, President Carter announced to the Nation that he would embargo all grain sales to the Soviet Union to punish that country for its invasion of Afghanistan.

At the time President Carter made his announcement I was traveling around the rural areas of our State. I'm sure, Mr. Chairman, that you heard the same message I did. Almost to a person, Minnesota farmers told me how much the embargo would hurt, but that they were willing to support the action because they wanted to help the country.

Their courage was overwhelming. These were the same farmers who, in the preceding year, 1979, suffered through a drought, a crippling strike at the Duluth port, railroad failures and a truckers strike. 1979 was a year in which prices dropped so low that the results of a year's work were still piled on their farms and in their elevators.

President Carter's embargo did exact its toll on Minnesota farmers. In fact, there is considerable evidence that they are still paying the price. There is no doubt that another embargo would be devastating to the agriculture community that is already devastated by low prices and soaring production costs. While the rest of the country is suffering through a recession, farmers are in a depression.

If anyone had any doubt about that, they should have spent this January with me in Minnesota. I traveled around our State holding hearings on the economy in seven communities. Time and again I heard the same stories: Interest rates have dried up the farmers' sources of borrowing at a time when they are making decisions about spring planting; commodity prices in many cases are lower today then they were last year; and production costs keep going up.

That should be reason enough to oppose the use of food as a weapon. But, Mr. Chairman, I know Minnesota farmers. I suspect that if their President called on their patriotism they wouldn't let him down. They'd tighten their belts another notch or two and rally to support their President and their country.

The sad truth, though, is that American farmers have already tightened their belts so much that they are choking. Another embargo may win a battle, but I'm afraid we would lose the war by losing the American farmer.

The use of food as a weapon is bad policy. Despite America's immense market power, we simply cannot embargo the world. Competitors such as Brazil, Argentina and the EEC have the resources to increase production and move into the markets we vacate. We also must recognize the near impossibility of monitoring the actions of those who purchase American grain and pass it throught to the embargoed nations.

To put it simply, we do not have an OPEC of grain and the United States cannot go it alone.

Beyond the difficulty of imposing an agricultural embargo, there is a more fundamental reason to oppose the use of food as a weapon. Food embargoes punish people, not the governments whose actions we are trying to change. The success of food embargoes depends on the ability of the people in the embargoed nations to change the attitudes and policies of their government.

Would the voice of a Russian peasant—of even a thousand or a million Russian peasants—be heard in the Kremlin? I doubt it. History has taught us that a totalitarian government will change its policies only when change is in the best interests of the government.

Mr. Chairman, (as I said earlier), during January I held hearings on the economy in Minnesota. I want to share with this subcommittee the testimony I received from Jerry Benz, a farmer in Martin County, Minnesota. Jerry said this:

"Our problems seem to stem from the fact we have been encouraged by past administrations and the current administration to produce more and more efficiently and rely less and less on Government support. I cannot argue with that position. It can be made to work.

"However, if we are to compete in the free market we have to be allowed a free market. In effect, past administrations and currently the present administration have determined they will use food as a weapon in determining policies. I cannot be expected to raise a crop and compete with world markets if this is going to be the case. If the Government continues to pursue this policy we may be better off removing farm programs from the Department of Agriculture and putting them in the defense budget, because that is what we are doing. We are supplying weapons in much the same manner that Lockheed does. They are guaranteed costs plus a percent. If the Government is going to continue to pursue this policy of using food as a weapon we should have the same guarantees."

Jerry Benz is painting a detailed picture of the American farmer's situation: The Government tells the farmer to produce as much as possible but then robs them of their markets.

The American farmer is saying to the Government, "Let us produce freely and let us market freely. If food is to be used as a weapon, then put the farmer in the defense budget and give him the same opportunities and benefits as any other defense contractor."

Mr. Chairman, we know that is not the answer. The answer is simply this: No more food embargoes.

I would now like to acknowledge two individuals who, unfamiliar though they may be in Washington, are well known throughout the agricultural community in Minnesota. Russell Schwandt, president of Minnesota Agri-Growth Council, is a respected and knowledgeable spokesman on those issues close to the hearts of Midwestern farmers, rural bankers, implement dealers and agribusiness. A former Commissioner of Agriculture for the State of Minnesota under the administration of Governors Rolvaag and LeVander, Russell was the founder as well as the first and continuing president of Agri-Growth. The issue before the committee today is one which Russell has been identified with since the mid-1960's. Before the Federal Government or the State of Minnesota had developed an export development policy for U.S. Agricultural commodities, Russell was personally visiting representatives in those countries which are now our largest markets.

When one considers the time and energy Russell spent developing a market for U.S. agricultural commodities, only to find that farmers have been denied access to that market by their own Government, it is easy to see why Russell has become Minnesota's most articulate spokesman in opposition to agricultural embargoes.

Dr. Edward Schuh, Dean of the University of Minnesota's Department of Agriculture and Applied Economics, has spent his entire life increasing and enhancing aspiring young farmers knowledge and understanding of our complicated agricultural economy. I had the priviledge of having Ed as a member of my Economic Task Force, an assignment he was particularly well suited for when one considers the importance of agriculture to Minnesota Economy.

STATEMENT OF HON. CHARLES E. GRASSLEY, A U.S. SENATOR FROM IOWA

Mr. Chairman, Members of the Committee, I appreciate this opportunity to share my views about the effects of agricultural embargoes. My position regarding embargoes of agricultural products is well known, and I know, identical to that of most of the other members of the Committee. I commend the Committee for holding this hearing at this time. Although the clear and convincing reasons for our opposition to embargoes are widely known, proponents of using agricultural trade as a foreign policy tool easily forget, or perhaps choose to ignore, the undeniable facts that prove that export embargoes of agricultural products hurt no one but our farmers, and if anything, help strengthen the countries at which the sanctions are directed.

The Soviet grain embargo presented a number of costly lessons to the United States. The first lesson was that grain embargoes simply do not work. Despite the embargo, the Soviets were able to import record levels of grain. Moreover, there is strong evidence that they imported the maximum amount of grain that their port and transportation systems could accommodate.

There may be some merit in the contention that it inconvenienced the Soviets to a small degree and that they experienced nominal increases in costs. But the Soviets turned this "minor irritation" to their long-range benefit. They broadened their sources of imports, they increased the efficiency of their livestock feeding programs, and they took action to improve their port and transportation facilities. All this led them toward self-sufficiency, moving them significantly away from reliance upon the United States.

The purpose of the embargo was to punish the Soviets for invading Afghanistan and to force them to leave. Clearly, the tactic failed miserably. The Soviets have done nothing to temper their activity in Afghanistan, nor have they exhibited any inclination to curb their oppressive actions in Poland because of fear of another embargo.

While the embargo was encouraging the Soviets to broaden their import base, thus strengthening our foreign competitors, the American farmers were sent reeling from the blow. Markets fell drastically leaving farmers critically short of necessary operating capital. So severe was the impact, Congress had to step in to provide emergency economical assistance to help farmers simply plant their crops. The Administration took additional costly actions to help, but overall, the efforts were insufficient. Moreover, it was found by the General Accounting Office that the Administration's action to mitigate the impact was not only ineffective, but in many instances, counter-productive.

American farmers lost a substantial market. The void was quickly filled by our competitors. The adverse impact was not only immediate, but also long-term and perhaps permanent. It is very questionable whether the U.S. can ever regain its position as principle supplier for Soviet agricultural import needs.

Now there is the question of another embargo. Although Congress through its wisdom made it highly unlikely that there will ever be another selective embargo, the Administration still holds the option of imposing an across-the-board embargo to force the Soviets to restrain themselves with regard to Poland.

I am adamantly opposed to any embargo that is imposed without the full co-operation of other grain exporting nations. Without their support, embargoes simply cannot work. Certain other countries would not co-operate during the last embargo, and I see no evidence that they would be willing to do so with another one.

STATEMENT OF G. EDWARD SCHUH, PROFESSOR AND HEAD, DEPARTMENT OF AGRICULTURAL AND APPLIED ECONOMICS, UNIVERSITY OF MINNESOTA, ST. PAUL, MINN.

During the period from 1973 to the present the U.S. government has imposed export restraints on at least five different occasions. Each of these restraints has had different motivations and policy goals. Each has had different effects.

Let's take a brief look at what these occasions were and how the motivations differed:

1973—embargo on soybean exports. The primary motivation was a concern with domestic price inflation, and the immediate intent was to stop the rapid escalation of soybean prices.

1974 (September)—a two-week moratorium on sales to the USSR. The main concern again was domestic price increases. But there also was a political concern that the Soviet Union would gain improper access to our grain supplies.

1975 (August to October)—a moratorium on sales to the USSR. This time the primary motivation was to negotiate a Grain Agreement which would limit the extent to which the Soviets would have access to our supplies.

1980—an embargo on sales to the USSR as punishment for its invasion of Afganistan.

1982—an embargo on the Soviet Union that is more implied than real, but no less effective for that. The imposition of martial law in Poland and the threat of a Soviet invasion of Poland has imposed a sufficient risk of government intervention, based on the 1980 experience, to cause both the Soviets and the grain exporting companies to be reluctant to engage in trade. Although no explicit embargo has been imposed, the threat of one has had almost the same effect.

A careful evaluation of each of these restraints on trade would go much beyond our present interests. Hence, I would like to do four things in the short time I have available:

1. Make a series of assertions about the above embargoes;
2. Review briefly the effects of the 1980 embargo on sales to the USSR;
3. Discuss the factors which make it unlikely that grain embargoes can be very effective; and
4. Discuss the true sources of economic and political power in agriculture.

SOME GENERAL PROPOSITIONS ABOUT EMBARGOES

1. If exports are an important component of the production of a domestic commodity, an embargo designed to choke off foreign demand so that domestic prices will be lower can be effective. There is little doubt about this. By means of such actions policy-makers can channel more of total output or supply to the domestic market. With domestic demand remaining the same, domestic prices will be lower. Other countries use such policies on a regular basis to keep prices of agricultural products low for their domestic consumers.

2. Announcement effects are very important in determining the ultimate effect of a short-term embargo. Moreover, short-term embargoes with specific operational objectives, such as those imposed by the U.S. in 1974 and 1975, can in general gain their objective without a great deal of disruption of trade. Whether they will or not depends on the conditions in the market at the time the embargo is imposed, and the conditions of the embargo.

3. Embargoes designed to punish other countries tend to have very mixed consequences. Even though there may be desired consequences in the short-term, over the longer-term the benefits may be more ephemeral and probably negative. This issue will be discussed in more detail below.

THE 1980 RESTRICTIONS ON SALES TO THE SOVIET UNION

A careful analysis of the consequences of the 1980 embargo would require more time than we have available this morning. Hence, I am making available copies of two analyses prepared by the Department of Agricultural and Applied Economics at the University of Minnesota.[1] The first of these was completed shortly after the embargo was imposed and was an attempt to analyze the expected consequences of the embargo. The second was done some nine months after the embargo, and was designed to give an ex post assessment.

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[1] Anthony, Willis, et. al., "The Partial Suspension of Grain Sales to the USSR: An Interim Analysis", Extension Miscellaneous Publication 103, University of Minnesota, 1980; and Cochrane, Willard W., "The Partial Suspension of Grain Sales to the USSR: An Appraisal Nine Months Later", Minnesota Agricultural Economist, Agricultural Extension Service, University of Minnesota, November-December, 1980.

To summarize the main results from these analyses, there were three major effects on the Soviet Union:

1. Available grain supplies for the Soviet economy were reduced by about six million tons. The Soviets were able to replace a great deal of the supplies they otherwise would have obtained from us, but not all.

2. The costs at which the Soviets acquired their grain was increased. These increased costs took a number of different forms. They had to pay higher transportation costs, in part because of the longer distances over which they had to ship their grain. Port costs were higher because they were not able to obtain the uniform supply they might have obtained from the United States. They had to pay prices that were higher than they otherwise would have had to pay—some observers believe about thirty-percent higher. And the price of gold was driven down because the Soviets had to sell more gold to pay for the higher costs in shipping and cost of grain which they incurred. This was not an insignificant loss to the Soviet Union. They generally sell in order to buy grain. The price of gold fell from about $600 an ounce to about $400 an ounce in that period. That means that they had to give up more of this vital resource to acquire the supply of grain they needed.

3. Meat production declined during the summer months of 1980 due to inadequate food supplies. There were reports of food riots in the USSR during this period.

In summary, then, we can say that our policy did impose some economic pain on the Soviet Union. Moreover, this pain in the form of higher costs and reduced supplies was not inconsequential.

The issue, of course, is whether the costs imposed on the Soviets were greater than those imposed on the U.S. economy. Let's therefore look at the consequences of the embargo to the U.S. economy:

1. Prices of agricultural commodities in the U.S. did not decline, except for a short period in the immediate aftermath of the embargo. Even though government programs implemented to offset the effects of the embargo were rather poorly administered, they did keep prices from declining except for a short period of time.

2. However, despite this failure of prices to decline, they were lower than they would have been in the absence of the embargo. How much lower they were is very difficult to say. There were a number of other economic factors affecting the commodity markets. First, U.S. agriculture suffered the consequences of a severe credit crunch in the spring of 1980. In fact, for many farmers credit was not available at any price. Hence, many producers had to sell off some of their inventory to obtain money to plant the 1980 crop. These sales had a significant effect on commodity markets.

In addition, there were significant transportation problems in the upper Midwest that were affecting the market. The Chicago-Minnesota basis widened very significantly, for example, causing farm level prices to be lower.

On net, it is generally estimated that exports from the U.S. to the USSR declined by approximately 12 million metric tons. A major part of this decline, however, was offset by increased sales to other countries. The international grain market worked very effectively in reallocating available supplies among the various importing countries. Other countries such as Argentina reduced their sales to traditional markets in order to respond to the new Soviet demand. But then the U.S. was able to pick up these abandoned markets. By the end of the marketing year, U.S. agricultural exports were actually higher than they were forecast prior to the embargo.

This reshuffling in the market was very helpful to U.S. producers. However, the fact remained that the Soviet Union imported some six million tons less than it otherwise would have imported. This meant a reduction of six million tons in total demand, which could be expected to have a significant effect on price.

3. A great deal of uncertainty and confusion was created in the commodity markets. A sudden embargo is unevitably disruptive to markets. However, the failure of USDA authorities to have a clearcut plan for dealing with the crisis, and the uneven way in which policies were eventually implemented created a great deal of disturbances in the market. These disturbances were of considerable importance in the market.

4. The imposition of the embargo led to a great deal of tinkering with traditional commodity programs. This tinkering was particulary unfortunate since the 1977 Food and Agriculture Act took us a long way towards managing agricultural policy by a set of well-defined rules. The embargo disrupted markets to such an extent that the rules could be honored only in the breach. The "tinkering" which followed the embargo created a great deal of uncertainty. This increased uncertainty may have been one of the more significant deleterious consequences of the embargo.

Overall, then, the embargo also imposed serious costs on the U.S. economy. As many obsevers have noted, we did a good job of shooting ourselves in the foot. Whether we did more harm to ourselves than to the Soviets is still an open question.

GENERAL COMMENTS ON EMBARGOES AS AN INSTRUMENT OF POLICY

There seems little doubt that under the right circumstances the United States can impose significant economic costs on another country by restricting its sales of grain to that country. The U.S. is a dominant supplier to the international market, and other countries may not be able to make up the supplies from other sources in the short run, or may be able to arrange them only at substantially higher costs.

In general, however, the economic costs to the other country will be substantially less than one might expect given our dominance in the markets. In the first place, most countries are only marginal importers of grain in the sense that they produce anywhere from 85-95 percent of their total domestic consumption. Contrary to the case of petroleum, or even of coffee, for example, most countries produce the bulk of their food supply at home. The few exemptions are countries such as Japan and Norway. But these are exceptions rather than the general rule.

The important point, of course, is that even though the U.S. may be a dominant factor in the total trade of corn, for instance, we are not a dominant factor in the total supply of corn or feed stuffs available. Almost every country has their readily available substitute for our product close at home—their own domestic output. The availability of this close substitute severely limits our economic power in those markets. The failure to recognize this distinction between being a dominant supplier for trade versus being a dominat source of total supply is one of the biggest misconceptions when people talk about the concept of food power.

Another factor that limits the power of the U.S. to inflict economic hardship on others by means of a grain embargo is that there are many other countries willing to supply the grain. Moreover, on the occasion of an export restriction, the price incentives to supply that grain will be quite strong. This is one of the important lessons taught by the Soviet embargo of 1980.

The most serious consequences of export restrictions, of course, are in the longer-term. In the first place, we lose our reputation as a dependable supplier, which causes importers to diversify their sources of supply. This is a subtle change, but nevertheless important since it encourages other countries to become net suppliers when they otherwise might not have been. The important influence of the Soviet Union on Argentina should not be neglected as a case in point. Prior to the 1980 embargo, Argentina faced an uncertain world market. Now, with a longer-term agreement with the Soviet Union, they can make those investments needed to strengthen their agriculture and to increase their output.

Even more importantly, we encourage other countries to become more self-sufficient. That results in a reduction in total demand for our output over the longer-term. Individual countries may make only small changes in their degree of self-sufficiency, but the sum of a lot of small changes can be quite significant.

SOURCES OF ECONOMIC AND POLITICAL POWER IN AGRICULTURE

One of the paradoxes of our foreign relations and international economic policy is that in general we neglect the importance of economic power and economic relationships.

At the same time, however, we exaggerate the power we have in the short-term from the use of embargoes and other economic policies.

The U.S. food and agricultural sector is a source of considerable economic and political power. However, it is naive in the extreme to believe that that power is rooted in our willingness or ability to cut off food supplied from other countries. Instead, its power rests in the contributions of our food and agricultural sector to the total economy, and in making us a strong economic power. Promoting and using that power requires that we foster growth in agriculture, and that we foster exports. These are just the opposite of putting an embargo on exports, or of limiting our export potential.

Consider a couple of important aspects of this strength. First U.S. agriculture has been earning a surplus on its balance of trade of between $25 and $35 billion a year. That surplus enables us to buy the critical imports we need. It also enables us to support our military establishment abroad. And it enables us to provide economic assistance to friendly countries. Each of these are critical to our economic and political power. But each of them requires that we export—not that we cut off those exports.

Second, the very high productivity of our agricultural sector is the key to our general economic strength. We feed our population and supply over $40 billion in exports each year with something less than three percent of our total labor force. No other country in the world does as well. This high productivity means that a larger share of our labor force and other resources can be directed to other uses. These other uses include the production of consumer goods, of investment goods, and arms to defend ourselves.

We should contrast ourselve with the Soviet Union in this regard. The Soviets have to commit something like 27 percent of their total investment budget to agriculture. The corresponding figure for the U.S. would be about 3 percent. Similarly, the share of their labor force in agriculture is also much higher than ours. These disparities are the true source of economic and political power.

Third, we tend to lose sight of the value of our ability to produce and supply food as a factor of emulation by others. Other countries greatly respect us for our ability to produce so much food so efficiently. Whether they admit it or not, they must respect the system that generates this performance. Unfortunately, we lose this psychological advantage when we misuse this economic advantage by capricious embargoes and restraints on trade.

Finally, the scientific and technological base which has generated the growth in productivity and general performance of our agriculture is widely respected abroad. Moreover, it is drawn on and used by other countries to strengthen their own agriculture. This is an important resource we have. We should draw on it more effectively.

CONCLUDING COMMENTS

Foreign relations are increasingly dominated by economic considerations. Moreover, that trend should continue into the future.

Unfortunately, neither the State Department, the National Security Council, nor the Congress have understood how we can effectively use our economic power to our own advantage. Similarly, we have not yet fully recognized the economic dimension to our foreign relations, either in identifying where our longer run interests lie or in shaping a foreign policy that is more consistent with our economic interests. The time is long past due when we should give more attention to these issues.

Statement of William R. Mullins, President, National Corn Growers Association

Mr. Chairman and committee members: I appreciate having the opportunity of appearing before you today for the purpose of discussing the long overdue requirement that the United States develop, announce, implement and maintain a consistent, reliable market-oriented international grain trade policy. I am Bill Mullins, the president of the board of directors of the National Corn Growers Association (NCGA), and I am a corn farmer from Shabbona, Illinois. With me today to participate in this hearing is John Stevenson, the NCGA vice president for legislative affairs, who is also a corn farmer from Circleville, Ohio. In this regard, we would like to point out that our organization represents corn farmers throughout the United States, and has State Corn Growers Associations from the following sixteen States affiliated with the National Corn Growers Association: Colorado, Illinois, Indiana, Iowa, Kansas, Maryland, Michigan, Minnesota, Missouri, Nebraska, New York, North Carolina, Ohio, Pennsylvania, Virginia and Wisconsin.

The National Corn Growers Association is committed to promoting the general welfare of U.S. corn farmers by maintaining and developing a domestic corn production program and a price and income support program consistent with a market-oriented grain economy. The purpose of pursuing such an objective is to allow U.S. corn farmers to increase the profitability of farming by reducing the cost of production through various areas of research and through maintaining the quality and volume of corn production for domestic and international markets.

For too long, U.S. corn and grain farmers have had to suffer from the uncertainty, threats and actual embargoes of U.S. corn and other products during the decade of the 1970's—and now starting with the decade of the 1980's, there is again in place a de facto grain and agricultural embargo against the Soviet Union and Poland. You may call it a suspension of negotiations for another long-term grain agreement; a postponement of negotiations for another maritime shipping agreement; cancellation of Government guaranteed export financing; or any other name. The end result is the same: A hiatus in grain trading with those countries simply because of the uncertainty, confusion and lack of confidence of either the seller or the buyer to enter into private, commercial contract for the shipment of U.S. corn and other productions. As a matter of fact, President Reagan in an interview only last week cautioned that the imposition of a total U.S. trade embargo against the Soviet Union—which would be predominantly U.S. grain exports—is a definite option being considered for the next set of trade and economic sanctions against the Soviet Union.

The following data clearly show that any trade and economic sanctions against the Soviet Union will be an inordinately large burden to be suffered by U.S. corn farmers and agricultural producers:

[In billions of dollars]

U.S. exports	1979	1980	1981 [1]
Agricultural	2.8	1.0	1.7
Industrial	0.8	0.5	0.8
Total	3.6	1.5	2.5

[1] Tentative forecast.

Sources: U.S. Department of Commerce.

It should be pointed out that only 1979 is a genuine reflection of the importance of U.S. grain and agricultural exports to the Soviet Union. In 1980, President Carter embargoed all agricultural exports to the Soviet Union, allowing only the minimum quantity of eight million tons of corn and wheat to be exported which is specificed in the U.S.-U.S.S.R. grain agreement. This embargo was not lifted until well into 1980 by President Reagan, actually on April 24, 1981, but with little official clarification about the permissible volume of 1981/82 U.S. grain exports to the Soviet Union until the latter part of 1981.

We need not simply focus on the current disarray of commercial trading relations with the Soviet Union and Poland. In the early 1970's, President Nixon thought it was necessary to embargo soybeans because of "high prices." During his brief tenure of office, President Ford also used informal embargoes against both Poland and the Soviet Union until the now extended five-year grain agreement was negotiated with the Soviet Union. But the most devastating effect of the long history of using U.S. grain and food trade as a "political tool" in international relations was the decision by President Carter to not only embargo agricultural export and to restrict corn and wheat to eight million tons but to actually force the cancellation of private and commercial contracts for up to seventeen million tons of corn and wheat, over a half million tons of soybeans and a substantial amount of poultry products. This decision by President Carter severely damaged the reputation of the U.S. as a reliable supplier of grain to the world market. But more devastating was his decision to force the cancellation of contracts, a move that raised the haunting spector of the "sanctity of private contracts" in overall U.S. commerce and trade.

U.S. corn farmers have been urged by several past administrations to maximize production to have adequate supplies for domestic consumption and to meet foreign demand. During the decade of the 1970's, U.S. corn farmers responded in the following consistent and reliable fashion:

Category	1971-72	1980-81	Percent increase
Yield (bushels per acre)	88.1	109.2	+24
Area (harvest for grain)	64.1	74.1	+16
Production (billion bushels)	4.2	8.2	+95

The increase in corn production in the 1970's predominantly from increased efficiency of land use and modern agronomical practices, was in large part to meet demands in Eastern Europe, the Soviet Union and various developing markets.

The largest and growing component in world demand for U.S. corn has been and could continue to be the Soviet Union and Eastern Europe. U.S. corn shipments to the Soviet Union could easily account for 25 percent of total U.S. exports, coupled with other Eastern European countries, U.S. shipments to these countries could account for over one third of annual corn exported.

Because of the "start-and-stop" in U.S. agricultural trade policy with the Soviet Union and Eastern Europe during the decade of the 1970's and now the "de facto" embargo of shipments to those countries, a large supply of the current level of U.S. corn production is simply hanging over the marketplace and severely depressing prices. Coupled with record 1981 corn production and forecasts for very heavy carryout stocks in 1982, cash prices to farmers throughout the corn belt States are now well below the cost of production and even farther below the national average 1980/81 loan rate of $2.40 per bushel. The national average loan rate for 1981/82 will be no lower than $2.55 per bushel. As of the end of January 1982, the national average price for corn is only $2.42 per bushel.

Compounding this situation is the lack of resolve of the U.S. Goverment to implement effective negotiations to remove import barriers to U.S. corn exports and to eliminate unfair grain export subsidies, particularly by the Common Market countries. Consequently, a Significant volume of current U.S. corn production is not competitive because of subsidized grain exports from other origins to markets in various developing countries.

During the same period of time over the 1970's, other grain and agricultural producing countries took advantage of the series of U.S. embargoes to increase substantial production and capture even greater percentage shares of world import markets. The best illustration is Brazil: An increase of soybean production from just over 1.5 million tons in the early 1970's to over 15 million tons last year. In Western Europe, coarse grain production increased by over 25 percent in the 1970's, reaching a record volume of 94.7 million tons in 1980/81. Consequently, the long series of U.S. grain and agricultural embargoes have had the undesirable and negative effect of encouraging increased grain and protein production in other countries, all of which are now fierce competitors with the United States for traditional import markets and major suppliers of grain and protein to the Soviet Union.

That is the long-term consequence of the inconsistent, unreliable and erratic U.S. grain trade policy during the 1970's and the beginning of the 1980's. The short-term and most unpleasant effect of the "start-and-stop" U.S. grain export policy was just announced last week by Secretary of Agriculture Jack Block.

A 10 percent voluntary set-aside program for corn and other feed grains and a 15 percent voluntary set-aside program for wheat will be in effect for 1982. In addition, there will be unlimited access to place corn in the U.S. farmer-owned three-year grain reserve, which now already has well over a billion bushels of corn. In announcing the 1982 production program for grains, the Secretary of Agriculture commented that it was designed to cut back on production because of the heavy supply of corn in the United States considering that the 1981/82 corn carryout stocks are projected to be in excess of 2.0 billion bushels—one-fourth of U.S. corn production in 1981. But if one reviews responsibility the past three years, you come perforce to the conclusion that the United States does not have an overproduction problem with corn. Rather, the United States is suffering from an inconsistent and restrictive grain export policy that results in the artificial build-up of corn stocks.

If normal U.S. grain trade with the Soviet Union had been allowed to prevail during 1980 and 1981, and coupled with the current but academic projections for 1982, the United States would not be faced with a record carryout of 2.0 billion bushels of corn stocks. During each year of 1980 and 1981, political decisions by the current and past administrations resulted in the loss of over 400 million bushels of corn exports during each of those two years for a total accumulation of 800 million bushels of corn stocks. With the current "suspensions," "postponements" and "cancellations"—the current euphemisms for grain embargoes—U.S. corn farmers will lose another 400 to 500 million bushels of corn export to the Soviet Union and eastern Europe. Consequently, the collective accumulation of those lost export opportunities amount to 1.3 billion bushels or just about 65 percent of the projected 1981/82 corn carryout stocks of 2.0 billion bushels. One must conclude that the voluntary set-aside programs for corn and grain in 1982 are remedial programs for an unreliable and restrictive U.S. grain export policy—and not for what is a fashionable explanation of "over-production" of corn in the United States.

At the farm gate level, cash prices for corn are now over $1.00 per bushel lower than they were at this time last year. In effect, the farm gate cash value for corn in 1982 has declined by more than $8 billion for an 8 billion bushel corn crop. This sizable loss of income to U.S. corn farmers—which does not even include the loss of income from 1980 and 1981 because of embargoes—has a substantial rippling effect throughout not only the U.S. farm economy, but also the general economy as well.

The impact of grain export restrictions or embargoes affect everyone in both urban and rural America. Several leading economic research firms have recently concluded that there is on an average a $10.00 multiplier effect for every dollar spent by a U.S. farmer. A decline in price of $1.00 per bushel for corn on an 8 billion bushel corn crop results, therefore, in a loss of more than $65 billion in economic activity in America. Coupled with similar projections for other agricultural crops, it is not surprising that the U.S. unemployment rate is at a post World War II record level.

Every sector of the U.S. economy suffers when farmers experience low grain prices: Tractors and farm equipment sales go down; automobiles and truck sales go down; parts and repair sales go down; petroleum, fertilizer and input sales go down; etc. With overall farm consumption of such basic industrial goods and services, the U.S. Labor force is reduced and unemployment soars. Lost jobs in U.S. steel industry and prolonged job lay offs in farm equipment manufacturers are a direct but staged consequence of U.S. grain embargo. And the industrial work force—manufacturing, service and sales—has as much at stake as the U.S. corn farmer, a point that should be underscored and explained by Senators and Congressmen from urban areas in America. A longshoreman out of work because of a decline in export freight due to grain export restrictions may well appreciate the folly of U.S. grain export embargoes. Although only 4 percent of the U.S. population may in fact be actual farmers, well over 40 percent of the U.S. labor and work force is directly dependent on a viable U.S. agricultural production plant for employment, income and financial security from the marketplace.

Members of the National Corn Growers Association are primarily concerned with maximizing U.S. corn and agricultural exports for the economic viability of the U.S. agricultural economy. Nevertheless, our members also appreciate the financial and economic disadvangates suffered by other sectors of the U.S. economy. It is for these two basic reasons that we present the following long-term agricultural export policy for your consideration:

LONG-TERM AGRICULTURAL EXPORT POLICY

1. Identify and define the long-term goals and role of the U.S. Government in a consistent and reliable corn production and export trade policy

2. Establish in the executive branch of the U.S. Government, in the U.S. Department of Agriculture or elsewhere, an entity responsible for maintaining the consistency and reliability of U.S. corn production programs and export trade policies

3. Fund and implement several mechanisms whereby U.S. corn exports are competitive and consistently offered to all foreign markets:

A. Direct CCC export sales credit program

B. Increased funding for CCC export sales credit program

C. Funding of and financing for the "agricultural export credit revolving fund" in title XII of the Agriculture and Food Act of 1981

D. Expanded use of an increased funding for the very successful P.L. 480 program in developing and maintaining market overseas in developing countries

4. Immediate and adequate funding for the effective implementation of "Special standby export subsidy program" in title XII of the Agriculture and Food Act of 1981 to offset the unfair grain export subsidy practices of several major grain exporting countries

5. A legal review of and determination about the suspension of government guarantees of export credits of corn shipments to Poland and suspension of negotiations with the Soviet Union resulting in "de facto" embargo under the "agricultural embargo protection" of title XII of the Agriculture and Food Act of 1981

6. Establish close consultations with U.S. corn farmers via several Government advisory structures about the implementation of and success with the above programs and mechanisms

In order to redress the severely depressed level of prices in the U.S. corn economy, the aggregate measures of the long-term international agricultural trade policy are a realistic, workable and understandable agenda for the 1980's. It will immediately begin to redress the almost irreparable income damage U.S. corn farmers are now suffering because of U.S. Government actions and inactions in the 1970's. In addition, it would well set in motion an international grain trade policy based on consistency and reliability for the 1980's.

STATEMENT OF CHARLES HAMON, PRESIDENT, AMERICAN SOYBEAN ASSOCIATION

I am Charles Hamon, a farmer from Valley Falls, Kansas where I produce soybeans, wheat, corn and cattle. I appear here today as President of the American Soybean Association.

The American Soybean Association (ASA) is a national, non-profit, volunteer, farmer-controlled, single commodity association organized to assure the opportunity for a profitable soybean industry. ASA has approximately 20,000 dues-paying members and is supported by over 460,000 soybean farmers who voluntarily invest in ASA programs through 23 separate soybean checkoff programs. ASA seeks to assure soybean profitability primarily through foreign market development, research, and grower and public education.

I greatly appreciate this opportunity to appear before you to review the devastating impact of the 1980 Soviet embargo on the nation's soybean industry—individual soybean farmers and the soybean processing industry. Our industry is today in near crisis condition because of low prices and there is absolutely no doubt that a lion's share of the cause of those low prices is the lingering impact of the futile Soviet embargo. Just as we are beginning to see the light of profit at the end of the tunnel we are receiving intermittent warnings that the light may be a train bringing another embargo against the Soviets in return for the crackdown on the Solidarity labor movement. Instead of learning the expensive lesson that embargoes of fungible commodities do not work, hardliners in the foreign policy community stand ready to take the same steps again. Will they ever learn or do they just have a desire to make America's farmers pay for their failure?

Our claims are easily proven. In the last calendar year prior to the Soviet invasion of Afghanistan and imposition of the Soviet embargo by President Carter, the U.S. sold in excess of 1.9 million metric tons of soybeans and soybean products to the U.S.S.R. The value of those exports was $511 million, making the U.S.S.R. our fifth largest soybean market. Upon imposition of the embargo almost a million metric tons of previously announced sales to the Soviets were cancelled and thrust back on the U.S. market. Almost immediately farm-gate prices for soybeans dropped about $1 per bushel. Even with the drought of 1980 we conservatively estimate the embargo reduced the value of the record 1979 crop by an average of 75 cents per bushel or about $1.7 billion for the entire crop. Moreover, we believe the value of the 1980 crop was depressed by at least 50 cents per bushel by the embargo or $930 million overall. While this year's crop is only partially marketed we again believe prices are depressed by at least 50 cents per bushel ($1.1 billion) by the lingering impat of the embargo. Thus, we believe the embargo has already cost the nation's soybean farmers about $3.75 billion. That's money that could have been used to pay rising farm debts, purchase equipment and supplies, or to otherwise invest in future productivity. Instead, the embargo has led farmers further down the road to bigger debts and even bankruptcy in some instances.

Not only farmers have suffered from the embargo. While ASA does not represent soybean processors we know they too were injured by the embargo. Soybean processors that collectively were operating at nearly 100 percent of capacity prior to the embargo, operated at only 66% of capacity in September 1981 when our second largest crop ever was being harvested. Since then several processing plants have been closed idling hundreds of workers. Negative crushing margins appeared shortly after the embargo was imposed and continue today. Of course, the current worldwide recession has had an effect, but clearly agriculture's recession can be traced back largely to the embargo.

The irony of the 1980–81 Soviet embargo is that while U.S. soy growers and processors were devastated, it did not prevent the Soviets from getting their needed soybean supplies. During the embargo the U.S.S.R. purchased at least 1 million metric tons of soybean meal from Europe. Most of that meal was produced from U.S. soybeans purchased at distressed prices with the European crushers making windfall profits in the process. Both Brazil and Argentina have signed long term agreements to annually supply the Soviets with 500,000 metric tons of soybeans or soybean products. Counting the 677,000 metric tons of U.S. soybean sales to the U.S.S.R. this marketing year, the Soviets are importing just as many soybeans as they were prior to the embargo. The difference is that the U.S. share has dropped from nearly 100 percent to about 40 percent. Brazilian annual soybean production has expanded by over 1 million metric tons since the embargo in response to increased Soviet demand—and the U.S. share of world soybean exports has declined as a result. Unfortunately, our carryover stocks have increased.

Unfortunately for U.S. soybean farmers, the 1980 embargo is only the last embargo we have had to endure. In 1973 the U.S. Government embargoed the shipment of soybeans and products because of short supplies and high prices. Our valued trading partners and allies, Japan and the European Community, were suddenly stopped from purchasing the U.S. soybeans they needed. Their response was to invest billions of dollars in Brazil and Argentina to expand soybean production in those nations to serve as an alternate source of supply to the U.S. market they saw as undependable. As a result, Brazil has expanded its production from just over 5 million metric tons in 1973 to an estimated 15 million metric tons this year. Argentina has expanded its production from only 272,000 metric tons in 1973 to almost 4 million metric tons in 1981. The single most important factor in the phenomenal growth of Argentine and Brazilian soybean production was clearly the 1973 U.S. soybean embargo.

The combined impact of the embargoes of 1973 and 1980 coupled with those in 1975 of Eastern Europe and Poland is to undermine the reliability of the U.S. as a dependable supplier of soybeans and grains. The U.S. is the only nation which has acted to sever outstanding commercial contracts on food and our actions have greatly damaged our competitive position in the world. Most important to ASA, U.S. interference with international soybean trade has cost our producers billions of dollars in income and we will continue to lose in the future because of the mistakes of the past.

Mr. Chairman, I can cite example after example of how soybean producers, processors and America, in general, have suffered from the 1980 embargo. I do not believe embargo proponents can cite a comparable lists of examples of how the 1980 embargo or previous embargoes has made America more secure. We cannot understand how anyone can today realistically consider imposing another embargo. The costs are just too high. Hopefully, this hearing will help those in the Administration understand what we have had to pay to learn that painful lesson.

Thank you. I'll be happy to answer any questions you may have.

STATEMENT OF JOHN FINLAYSON, CHAIRMAN, INTERNATIONAL TRADE COMMITTEE, NATIONAL GRAIN & FEED ASSOCIATION AND DIRECTOR, NORTH AMERICAN EXPORT GRAIN ASSOCIATION

Mr. Chairman and Members of the Subcommittee, my name is John Finlayson. In my appearance today I represent both the National Grain and Feed Association, of whose International Trade Committee I am Chairman, and the North American Export Grain Association, of which I am a Director.

The National Grain and Feed Association is a voluntary trade association of grain and feed firms. The operations of our 1,250 members include country elevators, terminal elevators, processors and exporters. The North American Export Grain Association is an organization representing the major U.S. grain exporting firms.

I am most grateful to the committee for the opportunity to share with you our thoughts on the embargo issue—an issue which pervades and dominates every aspect of American agri-business today.

AN OVERVIEW

The type of grain embargo imposed by the United Stated against the U.S.S.R. in the past and threatened anew is ineffective, enormously expensive and, (despite some efforts and considerable rhetoric) it remains a burden unfairly suffered largely by the agricultural sector of our society.

I would summarize our view of such embargoes in this way: 1. The basic nature of grain—an annually renewable resource whose production is widely spread throughout the world—does not physically lend itself to embargoes.

That simple, unavoidable fact is poorly understood and frequently ignored.

2. Embargoes cannot be aimed at one buyer without branding ourselves as unreliable in the eyes of other buyers—the very ones we most want to have rely on us.

3. In today's world, grain embargoes seriously weaken the nations that imposes them, but at most, only inconvenience the targeted nation.

4. Faced with a cut-off from one source, any importing nation will reduce its usage; reallocate resources to increase home production; utilize substitute commodities; and alter its supply sources. Today, and in our belief for at least the foreseeable future, it will not be significantly difficult for nations to do this.

5. Past experience and the state of the world economy today suggest a strict, multi-national embargo is very unlikely. Some grain exporting nations would face grave economic damage in supporting one.

6. Those here who support grain embargoes may advocate them as a political gesture or as a symbol of a political view. However, they cannot be defended on any rational economic grounds. From the standpoint of United States economic wellbeing and its future economic strength, they are an unmitigated disaster.

THE SHORT TERM

If you ask: "What are the immediate, short-term consequences of a grain embargo?" "What are the immediate 'costs'?", there is no single answer. It varies tremendously, depending on: (1) the factual circumstances at the time the embargo is initiated; and (2) exactly what commitments are being cut across. Overall, the final answers run from "bad" to "catastrophic."

Prejudging the factual circumstances is very complex. It starts with the then current market's ability to instantly absorb any quantity of *existing* sales being dumped back on it; the underlying strength and liquidity of both domestic and export markets in light of the reduced total demand prospects; prevailing market levels relative to the loan; relative accessibility of loan and reserve programs; the value at which sales were originally made relative to post-embargo values; the embargo's effect on existing commitments of transportation and handling facilities; our marketing and storage system's ability to deal with any nearby logistical trauma; and on and on.

I would emphasize that any list of these variables—many of them interdependent variables—is quite long. Judging these factors in advance of any embargo is not easy, but it is crucial that our government do so in the future, as very carefully as it can, before it acts.

The short term costs of the January 1980 embargo have been reviewed and analyzed by others. It may be informative though to look at what has happened to U.S.S.R. exports since then.

Many export specialists in U.S. agriculture feel that previous embargoes and present threats have already so damaged our reliability that we have now permanently lost a major share of the eastern block grain trade. We have lost it to other western grain exporting nations: Canada, Argentina, Australia, the EEC and others. There is considerable evidence that these experts may be right. Presently, some 85 percent of Argentia's wheat and corn exports go to the U.S.S.R.—a dramatic change from 1978 when only about 9 percent went to that country. In 1978 some 11 percent of Canada's grain exports went to the Soviet Union. This year we project those shipments will represent 34 percent of their total grain exports. Contrast this with our own situation. With some ups and downs, the 1970s saw U.S. grain sales to the U.S.S.R. climb to about 25 million tons at the time of the January 1980 embargo. Total Russian imports were then projected at about 35 million tons—hence our sales represented some 70 percent of their imports.

In our current crop year, the U.S. has sold only some 11 million tons—out of a projected U.S.S.R. intake of 40-43 million tons or roughly a 25 percent share.

In short, over the period of only 2 years, our share of that market has dropped from ¾ to ¼. Our competitors have quickly picked up our share—and did so while the total world market was expanding. It is interesting that a significant part of the U.S.S.R. market which we lost, has been taken over by countries which "supported" the United States in its January, 1980 embargo.

Our loss of competitive standing is not confined to the Soviet market. Production in other leading export nations is on the rise, as are their exports. Wheat and coarse grain exports from non-U.S. origins went from 73 million tons in 1978-79 to 85 million tons in 1980-81, and are projected at 90 million tons in 1981-82. While the total volume of this trade has grown over that period, the U.S. share has recently begun to drop—from 58 percent in 1979-80 to 56 percent in the current year. Most worrisome, this is a reversal of the trend throughout the 1970s which saw the U.S. share of export trade in a steady growth.

THE LONG TERM

The long-term costs of grain embargoes are very difficult if not impossible to guage, but my own opinion is they will far exceed the short-term costs. Embargoes imposed for international policy purposes always have a specific buyer or buyers in mind, but in fact they inevitably affect our standing with all buyers. That the U.S. will use food exports as a policy tool to the extent of cutting across existing commitments is a lesson not lost on our best customers—major importing nations of Asia, the Mid East, Europe and South America.

Neither developed nor developing nations anywhere can be encouraged to foster a basic food dependence on the U.S. where political change can suddenly cut across crucial food supply sources.

We may consider such concerns among our grain customers as unwarranted, or at very least remote in the extreme. But we are dealing with a world which has been economically shocked by the OPEC oil curtailment of 1973; one which has seen the U.S. impose grain embargoes or restrictions in 1974, 1975, 1980, and threatens them again. It is also a world that sees a rising threat of trade protectionism and a widespread increase in fundamental political tension.

Given the experience of the past decade and the political uncertainties of the present one, it seems a certainty that grain importing nations in general will first divert increased resources to boosting home food production. Secondly, they will increasingly seek sources of supply outside the United States.

A leading journal in our industry, *Milling & Baking News*, illustrates the point in an editorial entitled "Lesson From the South," published in the Jan. 12, 1982 issue. It read in part:

"The latest lesson in the grim realities of grain-embargo politics is provided by developments in Mexico, a country that had emerged as an important customer for U.S. grain. Mexico played a special role in its evolution as a market, because, as this nation's immediate neighbor to the South, its supplying process for both wheat and corn was largely rail-oriented. Thus, as Mexico grew to being a market, at its peak, for nearly 8 million tonnes of coarse grain and for more than 1 million tonnes of wheat, an elaborate system of shipping was put into place that utilized trains from specific origins in advantageous position to serve that market. A rail-transported flow developed that meant efficient use of cars and track.

"Right up to the time of the Carter-imposed embargo, the future of Mexico as a grain market was perceived as being very bright. Here was a country of 70 million people, growing at a prodigious rate of 3 percent per year, and facing an uncertain food production prospect due to a rather small total of cultivable land as well as frequent drouths. It made great sense for Mexico, with its newly-discovered oil and gas reserves, to look to the U.S. as providing an assured food supply, while its newfound wealth was devoted to more economic and less costly enterprises than raising food production at any cost.

"But when President Carter announced the embargo on grain sales to the Soviet Union, the government of Mexico responded almost instantaneously by proclaiming that its prime goal was now the achievement of self-sufficiency in food production 'at any cost.' The willingness of the U.S. to use the notorious 'food weapon' frightened the Mexican government into adopting an economic policy aimed at avoiding the possibility of Washington ever being able to use such a strategy against its neighbor to the South. A new national policy followed that involves the dedication of a major share of the national budget to the expansion of food production, including some of the most generous guaranteed farm prices in all the world, as well as the provision of credit for purchases of seed and fertilizer at highly subsidized prices. The agricultural program was brought directly under the guidance of the President of Mexico and latest advices would indicate that it has worked. At least, imports of grain from the U.S. are on the decline, and the prediction is being made that, following the record crop of 1981, a good crop in 1982 would place the country within reach of self-sufficiency."

PRESENT THREATS

There is another element of which our farm community is well aware but the public at large and indeed the Administration seems less conscious of. Almost since the lifting in April 1981 of the previous embargo, our Administration has persistently suggested that, (regrettably), a new embargo might have to be imposed under some circumstances. The continually renewed threats, though not intended to, have had the effect of substantially depressing U.S. grain prices. Those prices were and are already under great pressure from natural economic forces—large crops and carryover supplies here and good crops abroad; depressed demand; high interest rate levels; and the stronger U.S. dollar, to name a few.

Our depressed grain markets have perceived these threats as very real. Presumably the U.S.S.R. buyers have also viewed them the same way, considered that grain prices we are offering are very low and that the U.S.S.R. has not had a good crop this year.

The net effect of all this—a U.S. offer with no assurance it won't be cut across, and recurrent threats it might be cut across—has meant that even if eventually there is no embargo, the American farmer has suffered a good part of what he would endure if there had been one.

The costs of a constantly threatened embargo come close to the costs of a real one.

CURRENT CONTRACTUAL STATUS

The present status of export sales of U.S. corn and wheat to the U.S.S.R. is this:

1. Under a formal extension of the previous written agreement, the U.S.S.R. may buy up to 8 million tons of U.S. corn and wheat in the current year. That agreement

contains a specific guarantee that shipments of the 8 million will not be cut across (by U.S. political embargo).

This is the familiar 8 million ton guarantee which was honored in the January 1980 embargo.

2. Under a later informal offer by the U.S., the U.S.S.R. may buy up to an additional 15 million tons of either corn or wheat.

Importantly, this 15 million ton offer DOES NOT carry with it any assurance that if bought, these contracts would not be cut across.[1]

3. Of the total 23 million tons, the U.S.S.R. has bought only 10.9 million tons, or less than half of what they would be permitted to buy. The last of those sales was several months ago.

RECOMMENDATIONS

Uncertainty demoralizes markets and paralyzes trade. To the extent we can remove or lessen that uncertainty we will encourage markets. One step we would urge be taken immediately is for the Administration to publicly affirm that in the event of an imposition of a new embargo for foreign policy purposes, any existing sales contracts, (made within present USDA quantity limits), would not be cut across. Doing so would still leave the U.S. the ability to invoke an embargo for policy reasons, but since that embargo would only prohibit additional new sales, it would offer considerable benefits over what we have now.

1. Firstly, the markets' fear of the type of chaos initially threatened by the January embargo—the fear of large quantities of grain, grain contracts, transportation commitments and the like being forced back on the market suddenly—would be eliminated.

The present price-depressing effect of that fear would be greatly lessened.

2. All the world's grain buyers would be encouraged that once they had U.S. grain purchased (with U.S. approval), they at least could rely on its being shipped. We would regain at least some measure of reliability as a dependable supplier.

3. There is reason to believe that with that assurance the U.S.S.R. and some other eastern block nations might be encouraged to buy some of the additional quantities of grain the U.S. is currently offering.

I needn't tell you how welcome that business would be to our farmers today.

4. The prospective cost to the taxpayer of dealing with the aftermath of embargoes that cut across contracts and devastate markets would be very substantially reduced.

In conclusion, the embargoes the U.S. has imposed for foreign policy reasons have failed miserably. Their only noticeable impact has been the loss in the U.S.'s share of the world grain market. The short-term costs are significant but it is likely that long-term costs will be even more painful unless action is taken. Past embargoes and present threats of another embargo are highly damaging to our reputation as a supplier to not only the Soviet Union but all our important export markets. Threats of another embargo are strangling U.S. export opportunities, severely restricting the growth of U.S. agriculture and are contributing to depressed agricultural markets in the U.S.

The action we propose—that the U.S. unequivocally renounce cutting across any existing contracts—is one that should be taken without delay. It is a modest step. It will not alter the Administration's ability to act in the conduct of foreign policy. Though it is a limited step, we believe it will have substantial advantages to the United States in dealing with the crippling effects of grain embargoes—whether threatened or real.

[The following article was submitted by Senator Boschwitz:]

[From the National Journal, Sept. 6, 1980]

A DECADE OF GRAIN EMBARGOES

The Soviet grain embargo imposed by President Carter is the fifth agricultural trade ban in 10 years. The other four were the product of Republican Administrations and had more to do with domestic food prices than with foreign policy.

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[1] U.S.-U.S.S.R. trade in other grains, oilseeds, feed and foodstuffs is outside the agreements, and there is no assurance their sales contracts would not be cut across. These include soybeans, soybean meal and oil, sorghum, mixed feed and flour.

Of the four, the 1973 soybean and cottonseed embargo was the broadest and most controversial. That embargo was formally imposed by the Commerce Department on June 27, two weeks after President Nixon ordered a 60-day freeze on all prices and called for a "new system for export controls" designed to hold down "the price of animal feedstuffs and other grains in the American market."

Soybeans were singled out because poor weather had hurt crops in India, West Africa, Australia, China and the Soviet Union. At the time, the United States accounted for more than 70 percent of the world crop, and initial Commerce Department projections showed that about twice as many tons of soybeans were scheduled for export as were "available for export after fulfillment of domestic requirements." The embargo was a special blow to Japan, which had been getting about 90 per cent of its soybeans from the United States. But as I. M. Destler of the Carnegie Endowment for International Peace noted, "Once the embargo was imposed, it became clear that much of the apparent export demand was speculative."

The embargo was soon superseded by a licensing system that was lifted that September. "Major importers," Destler wrote, "ended up getting the soybeans they needed."

The remaining three embargoes were imposed against the Soviet Union (twice) and Poland. The first suspension of grain sales to the Soviet Union came in late September 1974 and lasted only until October. Just before the embargo, the Soviets had made their first major purchases of U.S. grain since the "great grain robbery" of 1972, when the Soviet Union bought 11.8 million tons of wheat (a fourth of U.S. production), 6.5 million tons of feed grains and 1 million tons of soybeans at low prices. President Ford summoned representatives of Cook Industries Inc. and Continental Grain Co. to the White House, and the Agriculture Department initiated a "voluntary system" under which grain companies were to notify the department of exports of more than 50,000 tons. In October, the United States worked out an agreement with the Soviets to hold their purchases of U.S. grain during the 1974–75 crop year to 2.2 million tons.

By March 1975, the department's "voluntary system" had been lifted. Soon the Soviets were in the U.S. market again, and during one week in July, according to a Congressional Research Service report, they bought 9.8 million tons of wheat and corn. On Aug. 11, Agriculture Secretary Earl L. Butz announced the temporary suspension of sales to the Soviet Union. On Sept. 9, Ford formally suspended all sales to the Soviet Union until mid-October while the two countries began negotiations over a long-term grain agreement. The next day, grain sales to Poland were also blocked.

Efforts to negotiate sales of grain in return for imports of Soviet oil at discount prices floundered. In October, the United States and the Soviet Union concluded a five-year agreement that obliged the Soviets to purchase at least six million tons a year of corn and wheat and provided that Moscow could buy an additional two million tons without getting official U.S. approval. In November, the United States concluded a separate five-year agreement with Poland, providing for annual sales of 2.5 million tons.

EFFECTS OF THE 1980 AND 1981 LIMITATIONS ON GRAIN EXPORTS TO THE USSR ON BUSINESS ACTIVITY, JOBS, GOVERNMENT COSTS, AND FARMERS

This report provides: (1) a brief description of the suspension of sales and shipments of agricultural products to the Soviet Union by President Carter from January 1980 to April 1981; (2) a description of the economic sectors directly and indirectly affected by that action; (3) estimates of direct losses and costs in the U.S. associated with the President's action; (4) an analysis of indirect costs and other adverse effects; and (5) a projection of the adverse effects in 1982-85 if a similar action were taken this year.

Analysis of the 1980 action has focused mainly on costs to the government and losses to the farmer in the months immediately afterward. This report deals principally with effects on certain economic sectors and the overall U.S. economy, as well as with costs borne by farmers and government.

1. The Action: Suspension of Grain and Other Agricultural Product Exports to the Soviet Union.

The facts are simple enough. On January 4, 1980 President Carter ordered an indefinite suspension of shipments of agricultural products and some other goods to the USSR. The principal direct effect was to prevent the shipment of 13 million metric tons (mmt) of U.S. corn, 4 mmt of U.S. wheat, and 1.3 mmt of U.S. soybeans and soybean meal that had been sold to the USSR for delivery before October 1, 1980. All but the soybeans were sold under terms of the fifth year of the U.S.-USSR grain agreement. (Poultry and a few other agricultural commodities affected by the action are not considered here).

Grain shipments to the USSR up to the 8 mmt that had been guaranteed by the U.S. under the Agreement entered into in 1975 were allowed to continue, both in the 1980-81 and the 1981-82 season. This accounts for the term "suspension" which was used in official government descriptions of the action, as distinguished from "embargo" which was commonly used outside the government. When the 8 mmt of grain that the U.S. had agreed to ship between October 1, 1979 and September 30, 1980 had been sent, the suspension became an embargo until October 1, 1981 when another 8 mmt was authorized to be sold and exported to the USSR under the Agreement. Shipments of soybeans, broilers and some other agricultural products not under a trade agreement were embargoed from January 4, 1980 through April 1981 when the action was ended by President Reagan.

While the purpose of this report is to describe and estimate the effects of the loss of grain shipments, principally corn, to the USSR in 1980, it also touches on soybeans. Soybeans are produced on the same farms as corn and in some cases wheat. They move through the same marketing system using the same transport and storage equipment. Therefore, conclusions drawn for grains apply directly to soybeans even though not all our estimates include soybeans.

NOTE: Prepared for the National Corn Growers Association by Schnittker Associates.

The 1980 action affected the volume of US-USSR trade and overall commercial relations directly in all of 1980 and until April,1981. The indirect effects continue to the present and will continue for an indefinite period. Their effects need to be taken into account and are treated here.

In describing the action and its effects, it is necessary to recognize economic linkages that go well beyond U.S. borders. When 13 mmt of U.S. corn, 4 mmt of U.S. wheat, and 1.3 mmt of soybeans and products could not be shipped to the USSR between January and October 1980, the Soviets turned to Canada, Australia, and Argentina for grain. Argentina which did not join with the U.S. in limiting grain shipments to the USSR, shipped additional quantities and was then unable to deliver the usual quantities to its regular markets. U.S. sales to some of those markets increased somewhat as a result. However, as discussed below, other exporting countries also responded to the larger market in the USSR, resulting from from the U.S. embargo, by increasing total exports and later by increasing production.

While U.S. grain exports did not decline by the full amount of the direct 17 mmt decline in wheat and corn exports to the USSR in the 1979-80 season, this magnitude of decline is probably not a bad estimate of the loss in U.S. exports in the two years following the January 4, 1980 embargo. For example, during the (current) sixth year of the U.S.-USSR Grain Agreement beginning October 1, 1981 the U.S. has offered the Soviets 23 mmt of grain, but it appears that they will take only about 11 mmt from the U.S. The USSR purchased 16 mmt from other sources in 1979-80, 26.5 mmt in 1980-81, and will probably buy about 29 mmt from non-U.S. sources in 1981-82.

2. Moving U.S. Corn, Wheat and Soybeans Into Export Markets.

In this section, we will describe the industry sectors and government indicators that are most closely related to grain exports. Estimates of industry, government and general economic impacts are provided mainly in Section 3.

The amounts and percentages of U.S. corn, wheat and soybeans going into domestic and export markets for the two most recent years (1979-80 and 1980-81 marketing seasons) are shown below. Note that from 33 to 64 percent of production has been exported in recent years. Removing or substantially reducing such a large volume of exports to a major (sometime the largest) customer is a critical matter with far reaching effects.

U.S. Supply-Demand Balances for Corn, Wheat, and Soybeans, Average 1979-80 and 1980-81 Marketing Years

	Corn	Wheat	Soybeans*
	million metric tons		
Production	185.3	61.3	55.2
Domestic Uses	127.9	21.3	21.1
Exports	60.8	39.3	29.3
	million bushels		
Production	7,294	2,254	2,030
Domestic Uses	5,036	781	777
Exports	2,394	1,442	1,076
Percent of production exported	32.8	64.0	53.0

* Includes products on a soybean equivalent basis.

The principal economic sectors involved in moving agricultural exports on to their final destination are:

(A) Inland Transportation. Corn and soybeans move from production into export mainly from the Midwest, although some export corn originates in the Southeast and the Great Plains. Wheat moves to ports largely from the Southern and Northern Plains, the Midwest and Southeast, and the Northwest.

- Roughly 55 percent of the grain and soybeans bound for export in 1980-81 moved to port by rail at a cost of about $.28/bu. from average locations to ports.
- About 45 percent moved by barge at an average cost of $.20/bu., although a small amount moves by truck.

(B) Ocean Shipping. Less than 5 percent of U.S. grain and soybean exports are shipped on U.S. flag vessels. Therefore, the estimate of lost ocean shipping receipts resulting from the 1980 trade suspension is for the world shipping industry rather than for the U.S. Average ocean freight rates in 1980 were about $20/ton for bulk grain shipments from U.S. Gulf ports to the USSR.

(C) Fertilizer, Farm Machinery, Farm Supplies. Effects of reduced exports on these sectors would be caused by:

- Accumulation of large carryovers, leading to government programs to reduce acreage planted or intensification of such programs already in effect to reduce plantings by more than had been intended before exports declined.
- Reduced market prices, leading to lower net farm income and diminished farmer purchasing power.

(D) Labor. Reduced labor use in the transport, port loading industries and agricultural supply industries would provide the principal loss in this area from lower exports.

(E) Balance of Payments. Total U.S. farm exports were valued at $40.5 billion in 1980 and $43.8 billion in 1981, on a fiscal year basis.

Agricultural exports adjusted for agricultural imports are credited with contributing a net improvement in the U.S. balance of payments of about $25 billion as an average for 1980 and 1981, despite the reduced volume and the reduced value per unit of agricultural exports.

The year 1980, however, may have marked a turning point in U.S. agricultural trade results. For example, U.S. exports to the USSR grew rapidly and fairly steadily during the 1970's, but fell sharply in 1980. Meanwhile, trade with Eastern Europe which was not affected by the embargo, continued to increase in 1980 and especially in 1981, when exports to the USSR also recovered to about the 1976 level.

It is within the above framework of expanding trade with the USSR and Eastern Europe in the 1970's that losses in grain and other agricultural exports to those countries in 1980 and subsequent years, and arising from U.S. trade policy must be framed.

Another source of lost export earnings apart from the 18.3 mmt gross loss of shipments to the USSR or the net reduction in U.S. exports to the whole world, is the reduced value per unit of corn, wheat, or soybeans exported to other countries. In the next section we provide estimates of average price reductions per bushel or ton, resulting from the suspension or embargo action.

Value of All U.S. Exports to USSR and Eastern Europe

Calendar Year	Total Exports to USSR	Agricultural Exports to USSR	Total Exports to E. Europe	Percent Agricultural Exports to USSR
	- - - - - - - - - - - - - - -	- - - millions - - -	- - - - - - - - - - - - - - -	
1971	$ 161	$ 45	$ 220	28
1975	1,833	1,170	1,279	64
1976	2,306	1,605	1,543	70
1977	1,621	1,053	1,121	65
1978	2,249	1,765	1,454	78
1979	3,604	3,000	2,115	83
1980	1,510	1,208	2,421	80
1981	2,431	1,665	4,338	68

Source: Department of Commerce

These reductions affected the unit value of all agricultural exports subsequent to the embargo, not only in 1980, but as we shall show, in 1981 and 1982 as well.

(F) Federal Expenditures. Increased costs to the U.S. government can never be fully accounted for since many thousands of man-hours, and much travel and communication were involved, taking time from other necessary government functions. The major tangible sources of increased costs arising from the suspension were:

- Losses incurred in assuming most of the export contracts for grains, oilseeds, and other products that were cancelled by the suspension action. USDA estimates this direct cost at about $465 million in the 1980 and 1981 fiscal years.

- Costs incurred in acquiring, owning, and storing grain through increased loan and reserve entries, and direct purchases from farmers. As a result of the reduced prices and larger stocks associated with the embargo, the Commodity Credit Corporation of USDA (CCC) purchased about 150 mil. bu. of wheat and 155 mil. bu. of corn directly. We estimate also that about 200 mil. bu. additional wheat and corn went into the USDA grain reserve as a result of the embargo. Treating these outlays as costs is controversial since CCC will recover all or a large part of them. However, additional government outlays were made and must be counted.

- Costs incurred in storing and owning the above additional commodities acquired by the CCC in the present case, for an estimated 3-4 years in view of the overall grain situation. Virtually all the grain purchased is still owned in 1982, and there is little prospect that it can be disposed of until 1983 or 1984.

- Costs incurred in meeting target price payment obligations in 1980 or 1981 which were attributable to lower market prices, resulting from the embargo. No target price payments were made on the 1980 corn crop since a poor U.S. corn harvest kept all grain prices above target price guarantee levels. None were made in 1981, when U.S. policymakers unaccountably set the target and loan prices at the same level. However, target price payments of 15 cents per bushel on approximately 2.5 bil. bu. of wheat in 1981 must be attributed to the embargo in full or substantial part. Also, we estimate that average

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prices received by farmers in 1980 for corn averaged at least 15-20 cents/bu. lower than would have been the case without the embargo. Our figures show that average farm prices for corn until August 1981 were about 30-40¢/bu. lower than if the U.S. had exported the larger quantities expected to be shipped in 1980. Without a suspension of trade with the USSR, we would not have had as large a carryover of corn at the beginning of the 1980-81 marketing year (1.6 mil. bu.), overall supplies would have been far tighter with the small crop, and prices would have been substantially higher to the present time or at least until the late summer of 1981. Wheat prices were reduced by an average of 25 cents per bushel over the two years.

3. Estimates of Direct Losses and Costs.

In Section 2 we described the linkages of farm produced grain to various economic sectors in and outside agriculture. In this section, we provide specific estimates of losses and/or costs incurred by the private sector and by government as a direct result of the 1980 suspension (later embargo) of certain exports to the USSR.

(A) Reduced Value of Inland Transportation. Losses to providers of rail, barge, and other transport for grains and oilseeds are estimated, based on composite freight rates provided in Section Two, and on two levels of reduced exports:

- 18.3 mmt of lost exports, the gross amount by which U.S. shipments to the USSR in the period January-October 1980 were reduced. Using this approach, the estimated loss in freight receipts mostly to rail and barge operators was $175 million; or
- 12 mmt, a rough estimate of the net amount by which U.S. exports of grain and soybeans to the world were reduced in 1980. This takes into account our increased exports to other countries that were the direct result of a rerouting of 3rd country exports to the USSR and increased U.S. exports to their usual markets. The estimated loss in freight receipts in this case, where the loss in USSR exports was partly offset, would be about $145 million.Judgments and claims on this matter will vary. Just after January 4, USDA and other offical spokesmen made representations that large amounts of grain no longer bound for the USSR would be bought by Mexico. It is possible that Mexico bought some of the grain, but it is most unlikely that Mexico bought more than she would have needed from the U.S.

(B) Ocean Shipping (world). Net losses in revenues in 1980 were either:

- $ 365 mil. based on the gross loss of export sales to the USSR; or
- $ 240 mil. based on the net loss of export sales to the world.

As indicated earlier, less than 5 percent of this loss can be allocated to directly to U.S. flag vessels, although much more might be attributed to U.S. ownership and/or manning of foreign flag vessels.

(C) Labor Lost in Transport and Shipping. We have not estimated this directly, but include it with an aggregate estimate later in this section of the overall impact on labor and goods. The total loss in jobs throughout the economy was in the area of 310,000.

(D) Balance of Payments. The loss in export earnings from reduced shipments to the USSR in 1980 was:

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- Approximately $2.5 billion, based on actual export prices and the gross amount of reduced exports; or
- About $1.5 billion, if only 60 percent of the gross loss in exports is considered, in view of increased exports to other countries.

There is, however, another balance of payments cost that must be assessed --the reduced per unit value of U.S. grain export sales after January 4, 1980: (1) to all other countries in 1980; and (2) to all other countries in 1981. We estimate that the lower prices averaging 15-20 cents/bu. of corn and wheat in 1980 and 30-40 cents/bu. in the first nine months of 1981 affected roughly 3,600 million bushels of the two export grains in 1980 and 2,900 million bushels in 1981. Losses in exports from this secondary impact on the value of all exports were in the area of $540-$720 million in 1980 and $870-$1,160 million in 1981.

(E) Government Costs. In the previous section we identified about 505 million bushels of increased acquisitions of grain by CCC because of the trade suspension. The cost of these acquisitions is conservatively estimated at $1.5 billion.

Interest on $1.5 billion for the three years that these extra stocks are expected to be in CCC hands, at 12 percent amounts to $540 million. Storage and handling at 30 cents/bu./year comes to $454 million. Extra costs for wheat target price payments made in 1981 were as much as $375 million.

(F) The U.S. Economy. The lost exports to the USSR as a result of the January 4, 1980 embargo had a major impact on the total U.S. economy. Agricultural production and exports generate jobs and incomes far beyond farming itself -- in the agricultural input industries, in transportation and storage, in food processing, etc. For example, USDA estimates that every $1 million of production or exports of wheat, corn, or soybeans results in $5.2-$5.4 million in gross output of goods and services in the whole economy, including the farming sector.

The aggregate effects on the U.S. economy of the USSR grain embargo are summarized in the following table. In making these calculations we used the season average prices of corn, wheat and soybeans that actually prevailed in the 1979-80 marketing year, prices well below what they would have been without the embargo, as indicated previously. Using these prices tends to underestimate the losses involved, but the magnitude of the loss in income to the U.S. economy is so great that one can treat it conservatively without loss of effect.

On the other hand, we assume that the full 18.3 mmt of grain and soybeans affected by the embargo represents lost exports over two seasons. As discussed earlier, this probably overestimates the loss in actual exports in 1980, but is a reasonable representation or an underestimate of the two year loss in exports.

The effects of the 1980 embargo on the U.S. economy are estimated as follows, based on the Commerce Department's input-output model of the U.S. economy and the gross reduction in exports:

- A loss of $11.4 billion in output of goods and services — 0.5 percent of national output;
- Reduced employment equivalent to 310 thousand workers, or 0.3 percent of total employment; and
- A reduction in personal income of $3.1 billion, or 0.1 percent of total.

Note in the table below that the impacts are listed separately for corn, wheat, and soybeans.

Impact of Lost Exports to USSR in 1979-80 on U.S. Economy

	Season Average Farm Price $/bu.	Lost Export Volume mil. bu.	Lost Export Revenue mil. $	Nationwide Losses In [1/] Output mil. $	Employment No. workers	Personal Income mil. $
Corn	2.52	512	1,500	6,863	189,630	1,806
Wheat	3.78	147	646	3,014	79,508	856
Soybeans	6.28	48	301	1,563	40,635	445
Total			2,447	11,443	309,773	3,107

1/ Based on Gerald Schluter and Kenneth C. Clayton, Expanding the Processed Product Phase of U.S. Agricultural Exports; NED, ERS, USDA, July 1981.

4. Indirect Costs and Other Damage to U.S. Agriculture and the Economy.

Prior to the January 4, 1980 suspension of grain sales and shipments and the accompanying political strains between the U.S. and USSR, American farmers had been and were expected to remain the principal suppliers of grain and soybean meal to the USSR. This is evidenced by the record of grain shipments from the 1971-72 through the 1978-79 season, as shown below. While our exports to the Soviets did not maintain the spectacular level of 1972-73, they did increase in the seasons indicated. This is especially true if we consider the low level shipped in 1971-72 of 2.9 mmt of U.S. grain. U.S. shipments were far greater than shipments by all other suppliers combined in most years after 1971, until the year of the embargo.

(A) The U.S. Has Now Become the Residual Supplier to the USSR. The commercial relationship in grains developed with the USSR during the 1970's represented a sharp change in the U.S. role in the world's grain trade, compared with our position vis a vis other importing nations. For a number of reasons arising out of the nature of grain marketing procedures and government policies in other countries and from some past U.S. farm policies, the U.S. has often been the residual supplier of wheat and coarse grains to the world. This is more true in the case of wheat than of corn, but it is true of both sectors. All other suppliers would sell whatever they had available in most years, and the U.S. would supply the remainder to a waiting world.

With the USSR the U.S. was the favored supplier and other countries got the residual trade -- until 1980. This situation developed both from the large

USSR Wheat and Coarse Grain Imports, By Source

(July-June Year)

	1971-72	1972-73	1973-74	1975-76	1977-78	1978-79
	million metric tons					
U.S.	2.9	13.7	7.9	13.9	12.5	11.2
Argentina	0.1	0.1	0.3	1.4	2.7	1.4
Canada	3.0	5.1	1.8	4.5	1.9	2.1
Australia	0.5	0.9	0.1	2.0	0.3	0.1
EC	0.1	1.9	0.5	0.5	0.2	0.2
Other	1.2	0.8	0.3	3.4	0.8	0.1
Total	7.8	22.5	10.9	25.7	18.4	15.1

quantities of grain Russia needed in some years; their experience in getting such quantities readily from the U.S.; and their lack of confidence in getting large quantities from other suppliers.

The predominance of U.S. shipments is seen in the fact that we supplied between 55 and 75 percent of USSR grain imports between 1972-73 and 1979-80, after having only a 37 percent share in 1971-72.

That favored relationship no longer exists and is not likely to be re-established. The U.S. is now the residual supplier to the USSR.

The contrast of the previous record with the export record since the 1980 suspension action and expectations for the 1982-83 season is dramatic and discouraging. This is illustrated in the following table, showing that the USSR imported 26.5 mmt from non-U.S. sources in the 1980-81 season and will import 29 mmt of grain from those sources in the 1981-82 season. At a minimum, the Soviets can probably buy 26-30 mmt from the rest of the world year-after-year in the early 1980's (as shown in the Table for 1982-83).

USSR Grain Imports, By Source
(July-June year)

	1979-80	1980-81	1981-82	Projected 1982-83
	------ million metric tons ------			
U.S.	15.2	8.0	11.0	0-6
Argentina	5.1	11.2	12.0	11-12
Canada	3.4	6.9	8.5	8-9
Australia	4.0	2.9	2.5	2-3
EC	0.9	1.1	2.5	2-3
Others	1.8	3.9	3.0	2-3
Misc. Grains (All Sources)	0.6	0.5	0.5	.5
Total	31.0	34.5	40.0	25.5-36.5

(B) The U.S. May Lose All Exports to the USSR in Some Years. Optimists may say that the USSR has imported 31-40 mmt in each recent season and will inevitably need to come to the U.S. for large tonnages each year. In fact, recent years have been unusual years, in comparison with the 1970's. The 1979, 1980, and 1981 Soviet harvests fell short of their official targets which averaged 233 mmt by 25 percent, or some 59 mmt per year. A shortfall as large as 59 mmt per year was unusual, even for the USSR, where farm production is notoriously unstable.

Such seasons will happen again, possibly soon. However, there will also be fair to good seasons when USSR grain production is 200-215 mmt and fine seasons when production may exceed the 1978 record. When such seasons occur during the early 1980's, there is little reason to expect the U.S. to sell much or any grain to the USSR. As shown in the tabulation below, the Soviets could harvest as little as 190 mmt in 1982 or 1983, maintain feeding at or near their recent high levels or probably well above their 1981-82 level (if the 1981 harvest was well below 175 mmt), and import only the 26-30 mmt available from the rest of the world.

Current and Prospective USSR Grain Balance

		Total Production	Imports	Total Use	Feed	Stocks
			million metric tons			
1980-81		189	34.5	225	119	+ 2
1981-82						
	(a) USDA	175	42.0	216	120	0
	(b) Low	155	40.0	194	97	0
1982-83	(a) High	215	26.0	229	122	+10
or	(b) Medium	200	29.0	226	120	+ 5
1983-84	(c) Low	190	30.0	220	115	0

This possibility shows how misleading it is to argue that U.S. grains alone, or grains plus our limited exports of other products, can exert material and sustained political leverage on the USSR. Only when Russia's needs are extraordinary (greater than 26-30 mmt per year) and/or when supplies from other grain exporters are unusually low could the U.S. alone exercise great leverage by cutting off agricultural exports and that would probably be only temporary. This is not to say that a U.S. or a joint U.S.-allied trade embargo would not damage the USSR. Rather, it suggests that damage would be sporadic and limited most of the time.

With the support of all the other major grain exporters or in years following very poor USSR crops and high import requirements, the U.S. would have some political leverage on the USSR. However, it should be remembered that USSR meat consumption at half the U.S. level, is not so low as to generate serious problems if meat suppliers were reduced or could not be increased. The option of reducing meat consumption targets in the USSR, cutting off or reducing the need for large and constant grain exports, is also an option for the USSR. In fact, some argue that this is how and why a grain embargo should be used to force a reduction in diet quality, leading possibly to internal discontent and political disruption.

(C) A Doubtful Future for the U.S.-USSR Grain Agreement. The 1975 Agreement under which the USSR agreed to buy at least 6 mmt U.S. grain and the U.S. agreed to sell and deliver at least 8 mmt per year through September 1981 was in part a logical successor to the "stop and go" U.S. trade actions of 1973-74-75. The U.S. stopped or stalled exports of grains and/or oilseeds on three occasions in those years, once to the world and twice to the USSR or Eastern Europe.

The U.S.-USSR Agreement grew out of these actions since it both reassured the USSR that we would ship certain minimum amounts and reassured the U.S. that our farmers could count on a certain level of export sales. The U.S. initiated and pressed the 1975 talks that led to the Agreement, even though the popular wisdom was that "Russia needs us more than we need them." It was a diplomatic event, negotiated largely by the Undersecretary of State, not an agricultural event. The U.S. has offered the USSR large quantities of grain above the 8 mmt level each year, at our initiative and without ever having a formal request from the USSR for more grain.

This result was partly a matter of form; the U.S. is more open than the USSR, and our grain supply levels are well known. Our officials would wait for the Soviets to ask, during a consultative meeting, for the grain we were sure they needed. Eventually we offered it unilaterally in most cases.

Even though the Soviets have now learned that they can buy 25-30 mmt of grain per year from non-U.S. sources, some advantages remain for them to buy as much U.S. grain as possible, however. We are more certain than any other country to have large exportable supplies in a bad year; we carry most of the

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world's reserves; and we can perform better than most other exporters on shipping schedules.

In 1982, however, there are very few reasons for the USSR to want a new agreement with the U.S. The USSR:

- Has agreements with most other grain suppliers.
- Can get all the grain and oilseeds it needs in many years without buying in the U.S. market, as shown above.
- Can buy in the U.S. market at any time (barring a general export embargo) without an agreement.
- Is unlikely to want a grain agreement with the U.S. as a political action. The U.S. will have to beg to get into a new negotiation, although one or more annual extensions of the existing agreement might not be so difficult to arrange at our initiative.

(D) Increased Export Capacity in Other Countries. Spurred partly by the strong demand for grains and oilseeds in the 1970's and by their own increasing grain output, Canada, Australia, and Argentina have increased their export loading capacity in recent years and are continuing to do so. This is illustrated by the total volume of grain shipped, as listed below. Note that Canada will export 7 mmt, or 41 percent more grain in the 1981-82 season than six years earlier. Australia will export 23 percent and Argentina 70 percent more than the 1975-76 season. These developments cannot be attributed solely or even principally to U.S. trade policies. But U.S. actions on agricultural exports have surely accentuated private and public actions and decisions leading to greater grain production and exports in other countries.

Even after adjusting for fluctuations in production and exports due to weather, competing exporting countries are already increasing their grain exports as the above table shows. These developments mean that the U.S. faces growing competition from other exporters, especially in years when the USSR is able to reduce its grain imports sharply from recent levels.

The U.S. role of a residual supplier may be further reinforced because the U.S. is the only major exporter that has explicit programs to support commodity prices and to reduce production through idling acreage in times of large supplies and weak demand. There is a real risk that U.S. price support levels will impair our price competitiveness in relation to other exporters.

The U.S. has also added substantial exporting capacity since 1975, much of which is idle in 1981 and 1982 because of the slowdown in exports, arising from limited shipments to the USSR, the general slowdown associated with economic recession abroad, and the strength of the dollar against world currencies.

5. Probable Costs of Maintaining the Present De Facto Embargo or of an Official Embargo on U.S. Exports to the USSR, 1982-85.

Since early January, 1982, the Reagan Adminstration has been considering a general embargo against exportation of any U.S. products to the USSR and possibly to Poland and other countries of E. Europe, to be applied under unspecified political conditions. These are generally thought to be: (a) more serious repressions in Poland than took place in late 1981 and January 1982; or (b) failure to lift martial law and to begin to restore certain rights to the Polish people at an early date.

The President and others in the government have repeatedly stated: (a) that such an action would be taken only if it could not be avoided; and (b) that agriculture will not be singled out in any trade sanctions against the Soviet

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Union. Both these conditions are ambiguous, since the President can avoid such an action if he chooses, and because agriculture eventually will bear most of the costs of such an action.

It is inherent in the composition of U.S. exports to the USSR that agriculture and especially grain is singled out by such an action. In recent years, our agricultural exports, mostly grains, have been about 80 percent of our total exports to the USSR in value terms.

As a result, a general trade embargo is essentially a grain embargo. A few large U.S. companies, but no major industries apart from agriculture, transport and farm suppliers would be seriously endangered by a general economic embargo. The ultimate effects, of course, would spread thorughout the economy as shown in Section 3.

Indirect, intangible, and future effects of both the 1980 action and its unofficial resumption in 1982 have far reaching implications for the U.S. _

- The U.S. has become the residual instead of the principal supplier of agricultural products to the Soviet Union.
- The U.S. may export only very small tonnages or perhaps no grain at all to the USSR in some future years under certain economic and political conditions.
- It will be very difficult to negotiate a favorable U.S.-USSR grain agreement in view of export availabilities from other countries.
- Encouraged both by an expanding world grain market in the 1970's and by U.S. "stop and go" export policies, other exporting countries have increased both their transport and loading capabilities and their grain production.

A general trade embargo banning the export of U.S. goods to the Soviet Union in 1982 would almost inevitably cut off or seriously reduce this trade for many years. Such an action would be inherently an action whose direct impacts would fall principally on the farm sector and allied industries, since most of our exports to the USSR are of farm origin.

If such an action prevented the shipment of 24 mmt or 945 mil. bu. of corn over three years, plus 12 mmt or 441 mil. bu. of wheat and 3 mmt or 110 mil. bu. of soybeans before it could be ended in (say) 1985, the overall economic costs would be as shown in the table below.

Impact of Lost Exports to USSR in 1982-85 on the U.S. Economy

	Nationwide Losses In		
	Output - $ mil -	Employment - Man Years -	Personal Income - $ mil -
Corn	$16,588	458,346	4,365
Wheat	11,474	302,731	3,260
Soybeans	4,814	124,740	1,368
Total	$32,876	885,817	$8,993

Wheat and Coarse Grain Production and Exports from Competing Exporting Countries

	Canada	Australia	Argentina
	---------- million metric tons ----------		
1975-76			
Production	37.1	17.6	21.0
Exports	17.2	12.3	10.2
1980-81			
Production	41.0	16.0	28.9
Exports	21.6	12.8	13.7
1981-82 est.			
Production	50.2	23.0	25.3
Exports	24.3	15.1	17.4

Competing grain exporting countries have made major efforts to increase their production and export capacity, as follows:

Canada:

- Built a new export elevator on its west coast at Prince Rupert;
- Invested heavily in hopper rail cars; and
- Is attempting to modify its rail rate structure to improve its capacity to move grain by rail.

Argentina:

- Altered its grain policies to allow producers to receive world prices for grain and oilseeds in an attempt to spur production; and
- Encouraged private firms to invest in inland grain origination and export elevator facilities and in soybean processing, much of which has been completed and more is underway.

Australia:

- Improved their export capacibility; and
- Encouraged grain production through providing producers with higher advanced payments at the start of each crop year.

USSR Grain Balance

Year Beginning July 1	Supply			Total Supply	Disappearance				Stock Change
	Production	Imports	Exports		Total Use	Food, Seed Ind.	Waste	Feed	
				(million metric tons)					
				Total Grain					
1977-78	196	18.9	2.3	213	228	77	29	122	-16
1978-79	237	15.6	2.8	250	231	78	28	125	+19
1979-80	179	31.0	0.8	209	225	78	22	126	-16
1980-81	189	34.5	0.5	223	225	78	28	119	- 2
1981-82 (USDA)	175	42.0	1.0	216	216	79	18	120	0
Low	155	40.0	1.0	194	194	79	18	97	0
1982-83 High	215	26.0	2.0	239	229	79	28	122	+10
Med.	200	29.0	2.0	227	226	79	27	120	+ 1
Low	190	30.0	2.0	218	218	79	25	114	0
				Wheat					
1977-78	92	6.6	1.0	98	108	51	14	44	-10
1978-79	121	5.1	1.5	125	107	50	14	43	+18
1979-80	90	12.0	0.5	102	116	51	11	54	-14
1980-81	98	16.0	0.5	114	116	52	15	49	-2
1981-82 (USDA)	88	19.0	0.8	106	106	52	9	45	0
(SA)	75	18.0	0.8	92	92	52	9	31	0
				Coarse Grains					
1977-78	93	11.7	1.0	103	109	21	14	74	-5
1978-79	105	10.0	1.0	114	113	22	13	79	+1
1979-80	81	18.4	-	100	102	22	10	70	-2
1980-81	81	18.0	-	99	99	21	12	66	0
1981-82 (USDA)	77	22.0	-	99	99	22	8	69	0
(SA)	70	21.0	-	91	96	22	8	61	0

[The following article was inserted by Senator Dixon, see p. 35 for oral reference.]

[From the Wall Street Journal, Feb. 1, 1982]

SHOCK FOR GROWERS—FALLING GRAIN EXPORTS BRUISE THE FARM BELT; DAMAGE COULD SPREAD

NEW SURGE SEEMS UNLIKELY; TRADE IS HURT BY SLUMPS, TENSION AND COMPETITION—EMBARGO HELPED ARGENTINA

(By Sue Shellenbarger)

HAVANA, Ill.—Selling food to foreign countries is big business in this Corn Belt town of 4,400 on the Illinois River. Lately, business hasn't been good. Many nations have cut their purchases of U.S. grain and people in Havana are feeling it in their pocketbooks.

Much road traffic in Havana still consists of trucks rumbling over the town's brick streets with hundreds of millions of dollars in grain to be loaded on barges headed for the port of New Orleans. But corn prices in Havana are down 25 percent from last year, and the volume of grain shipped from all Illinois River ports is down one-fifth.

Havana farmers, who send most of their grain abroad, have cut their spending plans and are signing up for government price supports at a fast clip. Farm-equipment dealers are hurting, and barge operators are feeling the pinch. At Havana National Bank, Chairman Frank Cook, Jr. says: "Prices are depressed and that hurts." What if conditions don't improve? "I'd retire," Mr. Cook says. "Conditions *have* to change."

Farm exports have fallen sharply nationwide, because of world slumps and tensions and because of competition from other countries. There have been declines before, but this time many of the causes seem unlikely to change soon. "We're dealing with some structural problems that are rooted in either economics or politics, and it will be difficult to turn these things around quickly," says Martin Abel, senior vice president of Schnittker Associates, Washington economic consultants.

END OF AN ERA

Apparently an era of explosive export growth, which brought about large increases in U.S. farm income and productivity, has ended. Although farm exports are likely to pick up from current depressed levels, their average growth through the 1980s won't approach the boom levels of the 1970s, experts say. That may slow food inflation for U.S. consumers, but U.S. farmers and the overall economy may suffer.

"World grain trade essentially doubled during the 1970s. That kind of increase simply can't go on," says D. Gale Johnson, a University of Chicago economics professor. Barring crop failures elsewhere, he says, "there will be two or three fairly painful years" for the farm economy.

Vincent Malanga, the senior economist at A. Gary Shilling & Co., New York economic consultants, predicts average annual growth of 2 percent for U.S. grain exports in the 1980s, down from 8 percent in the 1970s. That suggests, he says, that "the farm economy is going to be a relatively weak link in the general economy in the 1980s."

QUITE A SHOCK

The farm-export slump began in the year that ended last Sept. 30. Volume, falling far below forecasts, dropped by 1 percent. The picture has darkened since: Foreign sales and shipments of U.S. corn, wheat, soybeans and sorghum have been running 11 percent behind a year earlier.

To farmers accustomed to the last decade's soaring trade—spurred by rising world appetities for meat, milk, eggs and bread, plus the opening of huge markets such as the Soviet Union and China—the decline comes as a shock. After all, exports accounted for 85 percent of the growth in consumption of U.S. grains during the 1970s. By 1980, two-fifths of U.S. crops were being sent abroad, providing about 30 cents of each farmer's dollar of cash income. The trade surplus in agriculture grew twentyfold over the decade, to $26.7 billion in 1980.

In fact, the 1970s culminated in a near shortage in 1980—when drought and three years' steady increase in export demand pushed U.S. grain prices sharply higher—and in fears of a 1981 shortage. Those fears were eradicated by the weather: Crop yields last fall were astonishingly high: But serious problems also arose, so that much of the surplus grain that normally would have flowed into world trade sat in farmer's bins instead. Some of the problems:

Rising interest rates around the world discouraged grain dealers from building inventories.

Food demand slowed in industrialized nations beset by recessions.

Rising debt forced many nations, already burdened by expenditures for imported oil, to devote more cash to debt payments and less to food imports.

The result of all these factors in Eastern Europe, where grain imports jumped at an annual rate of 30 percent or more in the last five years, is a mood of increasing austerity. In Romania, where a food rationing program is in effect, President Nicolae Ceausescu, in a speech about disappointing harvest results, told Romanians they eat too much bread anyway and are getting too fat. In Yugoslavia, corn meal has been mixed with scarce wheat flour to make bread without raising wheat imports. U.S. grain exports to Eastern Eueope are running 15 percent behind last year.

Another significant factor is the rising belief world-wide that the U.S. is willing to use trade embargoes as a political tool. President Ford suspended grain shipments to the Soviet Union for a time in 1975 amid a flap over the sales' effect on U.S. food prices, and in early 1980 President Carter embargoed a large part of U.S. sales to Russia over its invasion of Afghanistan.

Although President Reagan lifted that embargo, the recent Polish crackdown led him to postpone negotiations with Russia on a new grain-sales contract, and he hasn't ruled out further restrictions if the Polish situation worsens. All this makes some nations reluctant to depend heavily on the U.S. for food, and it encourages development of farm production in competing grain-exporting nations.

Since the 1980 U.S. embargo on Soviet grain trade, for example, the Soviets have turned Argentina into a virtual trade colony, and the U.S. share of Russian grain imports has slipped to 40 percent from 75 percent. After the embargo, the Russians more than quadrupled their share of Argentina's wheat and corn exports to 80 percent and 88 percent, respectively.

Elsewhere, self-sufficiency campaigns are cutting into grain imports. Mexico, U.S. farmers' third-biggest customer, is trying to avoid food dependence on "the colossus of the north" and managed last year, with the help of good weather, to grow all the beans and corn it needed for the first time in 10 years.

There are other long-term factors. Whitney MacMillan, the chairman of Cargill Inc., of Mineapolis, the big commodity merchandiser and processor, cites rising competition from grain-exporting nations that, "largely left out of the export growth of the 1970s, are now finally gearing up to serve this demand." Aided by grain price supports and import duties, farmers in the European Economic Community for the first time in many years have become net exporters of grain instead of importers. European grain exports could rise 50 percent by 1985, Mr. MacMillan estimates. Canada, too, plans to increase its grain exports sharply.

Competition already has cut into U.S. trade in some of the hottest world markets. In the Middle East, "there's strong growth in demand, but competitors are getting a bigger share," says John B. Parker, an Agriculture Department economist. France and Brazil recently have captured much of the growth in food imports by the Saudis.

All told, the U.S. share of world trade in grain and soybeans dropped to 52 percent in the 1980–81 marketing year from 56 percent the year before.

GAINS POSSIBLE

U.S. farm trade could pick up, of course, if crop failures force grain-importing nations to assign food imports a higher priority. An improvement in the world economy could spur sharp increases in trade with such big potential markets as China. And meat and poultry consumption in most of the world still lags behind the U.S.

diet of 240 pounds a year, Czechoslovaks consume about 170 pounds, for example, and Mexicans about 64 pounds.

But the biggest new markets, such as the Soviet Union, are already open, and the potential for a renewed surge in growth is outweighed for now by other factors.

In the U.S. Farm Belt, many farmers are painfully aware of the export slowdown and are puzzled by it. "You bet I think of it," says Havana farmer Doyle Walker. Most of Mr. Walker's crops are usually sold abroad. In December, prices for corn in Havana dropped 15 cents a bushel, roughly 5 percent instead of rising as they normally do at that time of year. The reason was international tension over the Polish situation: Buyers thought that the U.S. might impose another grain embargo against the Soviet Union; that would depress prices, so the buyers held back, anticipating better deals later.

Lunching at Waterworth's restaurant in downtown Havana, Fred Reeves, the manager of the Havana elevator of Growmark Inc., a farm cooperative based in Bloomington, Ill., muses about such influences. "There's been a tremendous change," he says. "Fifteen years ago, we weren't a world market. We were a domestic market. All of a sudden the farmer has to answer to world demand, to what's happening in Hungary, in Poland, in Argentina. Fifteen years ago, we wouldn't have thought of it."

"SQUARE IN THE EYE"

Across town, at Melvin Weakly's John Deere farm-equipment dealership, Mr. Weakly and his manager, Delbert Sielschott, spend much time cutting their inventories and talking about sluggish grain demand. In 1981, "a lot of farmers just couldn't generate enough income to buy equipment," says Mr. Weakly, and the year was his worst ever. "We don't see too much of a future, up to the mid-1908s," for grain demand. "We try to look the situation square in the eye," Mr. Weakly says. Concludes Mr. Sielschott: "And it looks pretty bad."

Along the Illinois, as many as 100 idle barges backed up at some ports even before last month's freeze, and barge rates plunged 20 percent or more. About one-fourth, or "tens of thousands," of U.S. railroads' grain-hauling cars are idle, says the American Association of Railroads.

Taxpayers are starting to pay for the slump, too. The Agriculture Department in December handed out $400 million to wheat farmers to compensate them for low prices. And farmers have put a record 1.16 billion bushels of corn in storage under a government price-support reserve program—an amount worth $2.8 billion at today's prices and equal in volume to the entire Indonesian rice crop.

If the slowdown continues, as many experts say it will, it could affect the whole economy. Food-price inflation, barring crop failures, is likely to be slowed by ample grain supplies and to lag behind the general inflation rate for much of 1980s, Mr. Malanga of Shilling says. Cheaper feed for livestock will lead to "a more healthy climate" for producing beef, pork and chicken, says the University of Chicago's Mr. Johnson.

But the export boom of the 1970s benefited the economy in other ways. Based on an Agriculture Department calculation that every one million metric tons of U.S. farm exports generates 100 jobs, about 16,000 people last year owed their jobs to these exports. Farm exports also reduce the need for costly government price-support programs and help raise the dollar's value against other currencies by improving the U.S.'s overall trade balance. Besides, those who prosper from exports spend more, spreading their prosperity around.

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